

1ST CONSTITUTION BANCORP
Form 8-K
April 26, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d)
of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported) April 26, 2006

1st CONSTITUTION BANCORP

(Exact Name of Registrant as Specified in Charter)

New Jersey (State or Other Jurisdiction of Incorporation)	000-32891 (Commission File Number)	22-3665653 (I.R.S. Employer Identification Number)
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2650 Route 130 P.O. Box 634, Cranbury, New Jersey (Address of Principal Executive Offices)	08512 (Zip Code)
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Registrant's telephone number, including area code (609) 655-4500

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

On April 26, 2006, 1st Constitution Bancorp issued a press release reporting earnings and other financial results for its first quarter ended March 31, 2006. A copy of the press release is attached and is being furnished as Exhibit 99.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

99 Press Release of 1st Constitution Bancorp, dated April 26, 2006

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

1ST CONSTITUTION BANCORP

Date: April 26, 2006

By: /s/ JOSEPH M. REARDON
Name: Joseph M. Reardon
Title: Senior Vice President and Treasurer

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Title</u>
99	Press Release of 1 st Constitution Bancorp, dated April 26, 2006

T STYLE="font-family:Times New Roman" SIZE="1"> 13,572 104,251 65,773 94,438 67,000

Residential construction

27,441 12,611 59,502 34,597 128,082 62,595

Residential mortgage

10,006 6,608 21,528 14,968 28,026 20,488

Consumer installment

Total with no related allowance recorded

57,100	32,791	185,281	115,338	250,546	150,083
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With an allowance recorded:

Commercial (secured by real estate)

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1,398 1,208 78 2,230 2,230 268

Commercial construction

1,441 1,015 450 5,146 5,107 203

Commercial (commercial and industrial)

737 737 30

Total commercial

2,839 2,223 528 2,230 2,230 268 5,883 5,844 233

Residential construction

14,480 4,908 644 3,197 3,027 685

Residential mortgage

639 639 639 500 500 137 3,618 3,618 222

Consumer installment

Total with an allowance recorded

3,478 2,862 1,167 17,210 7,638 1,049 12,698 12,489 1,140

Total

\$60,578 \$35,653 \$1,167 \$202,491 \$122,976 \$1,049 \$263,244 \$162,572 \$1,140

There were no loans more than 90 days past due and still accruing interest at June 30, 2011, December 31, 2010 or June 30, 2010. Nonaccrual loans at June 30, 2011, December 31, 2010 and June 30, 2010 were \$71.1 million, \$179 million and \$224 million, respectively. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans with larger balances.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table presents the recorded investment (unpaid principal less amounts charged-off) in nonaccrual loans by loan class as of June 30, 2011, December 31, 2010 and June 30, 2010 (*in thousands*).

	September 30, June 30, 2011	September 30, Nonaccrual Loans December 31, 2010	September 30, June 30, 2010
Commercial (secured by real estate)	\$ 17,764	\$ 44,927	\$ 56,013
Commercial construction	2,782	21,374	17,872
Commercial (commercial and industrial)	1,998	5,611	7,245
Total commercial	22,544	71,912	81,130
Residential construction	22,643	54,505	88,375
Residential mortgage	24,809	51,083	53,175
Consumer installment	1,069	1,594	1,655
Total	\$ 71,065	\$ 179,094	\$ 224,335

Balance as a percentage of unpaid principal 64.5% 67.2% 69.4%

The following table presents the aging of the recorded investment in past due loans as of June 30, 2011, December 31, 2010 and June 30, 2010 by class of loans (*in thousands*).

	September 30, 30 - 59 Days Past Due	September 30, 60 - 89 Days Past Due	September 30, Greater Than 90 Days Past Due	September 30, Total Past Due	September 30, Loans Not Past Due	September 30, Total
<u>As of June 30, 2011</u>						
Commercial (secured by real estate)	\$ 6,990	\$ 2,001	\$ 11,605	\$ 20,596	\$ 1,721,158	\$ 1,741,754
Commercial construction	930	651	1,985	3,566	191,624	195,190
Commercial (commercial and industrial)	1,496	624	809	2,929	425,129	428,058
Total commercial	9,416	3,276	14,399	27,091	2,337,911	2,365,002
Residential construction	2,942	2,242	15,774	20,958	480,951	501,909
Residential mortgage	13,788	3,594	12,678	30,060	1,147,166	1,177,226
Consumer installment	1,234	353	273	1,860	117,450	119,310
Total loans	\$ 27,380	\$ 9,465	\$ 43,124	\$ 79,969	\$ 4,083,478	\$ 4,163,447

As of December 31, 2010

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Commercial (secured by real estate)	\$	10,697	\$	3,672	\$	19,457	\$	33,826	\$	1,727,598	\$	1,761,424
Commercial construction		4,616		2,917		9,189		16,722		279,860		296,582
Commercial (commercial and industrial)		2,016		2,620		3,092		7,728		433,790		441,518
Total commercial		17,329		9,209		31,738		58,276		2,441,248		2,499,524
Residential construction		13,599		5,158		34,673		53,430		641,736		695,166
Residential mortgage		24,375		7,780		38,209		70,364		1,208,416		1,278,780
Consumer installment		2,104		462		808		3,374		127,282		130,656
Total loans	\$	57,407	\$	22,609	\$	105,428	\$	185,444	\$	4,418,682	\$	4,604,126

As of June 30, 2010

Commercial (secured by real estate)	\$	18,192	\$	8,636	\$	36,010	\$	62,838	\$	1,717,304	\$	1,780,142
Commercial construction		10,563		1,307		10,451		22,321		319,819		342,140
Commercial (commercial and industrial)		4,175		1,668		3,775		9,618		431,479		441,097
Total commercial		32,930		11,611		50,236		94,777		2,468,602		2,563,379
Residential construction		33,499		10,224		48,302		92,025		727,905		819,930
Residential mortgage		28,905		7,707		40,271		76,883		1,278,699		1,355,582
Consumer installment		2,776		618		754		4,148		129,991		134,139
Total loans	\$	98,110	\$	30,160	\$	139,563	\$	267,833	\$	4,605,197	\$	4,873,030

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

There were no specific reserves established for loans considered to be troubled debt restructurings at June 30, 2011 and June 30, 2010. As of December 31, 2010, \$173,000 of specific reserves were allocated to customers whose loan terms have been modified in troubled debt restructurings. United committed to lend additional amounts totaling up to \$396,000, \$1.17 million, and \$1.19 million as of June 30, 2011 and December 31, 2010, and June 30, 2010 respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

The following table presents additional information on troubled debt restructurings including the number of loan contracts restructured and the pre and post modification recorded investment. Also included in the table are the number of contracts and the recorded investment for those troubled debt restructurings that have subsequently defaulted (*dollars in thousands*).

	September 30, Number of Contracts	September 30, Pre- Modification Outstanding Recorded Investment	September 30, Post- Modification Outstanding Recorded Investment	September 30, Troubled Debt Restructurings That Have Subsequently Defaulted Number of Contracts	September 30, Recorded Investment
As of June 30, 2011					
Commercial (secured by real estate)	31	\$ 24,946	\$ 21,998	4	\$ 1,580
Commercial construction	5	9,477	9,477		
Commercial (commercial and industrial)	5	156	156		
Total commercial	41	34,579	31,631	4	1,580
Residential construction	46	11,741	10,718	4	763
Residential mortgage	29	3,937	3,784	2	155
Consumer installment	6	111	111		
Total loans	122	\$ 50,368	\$ 46,244	10	\$ 2,498
As of December 31, 2010					
Commercial (secured by real estate)	41	\$ 40,649	\$ 36,759	3	\$ 1,402
Commercial construction	16	37,980	37,067	2	1,083
Commercial (commercial and industrial)	7	645	364	1	7
Total commercial	64	79,274	74,190	6	2,492
Residential construction	63	22,012	20,782	11	2,028
Residential mortgage	43	6,574	6,285	4	324
Consumer installment	7	124	124		
Total loans	177	\$ 107,984	\$ 101,381	21	\$ 4,844
As of June 30, 2010					
Commercial (secured by real estate)	44	\$ 34,629	\$ 32,986	1	\$ 103
Commercial construction	8	18,437	18,402		
Commercial (commercial and industrial)	7	265	265		
Total commercial	59	53,331	51,653	1	103
Residential construction	44	20,234	18,758	7	1,478
Residential mortgage	33	6,980	6,518	2	639

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Consumer installment	5	987	987		
Total loans	141	\$ 81,532	\$ 77,916	10	\$ 2,220

Risk Ratings

United categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, current economic trends, among other factors. United analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continuous basis. United uses the following definitions for its risk ratings:

Watch. Weakness exists that could cause future impairment, including the deterioration of financial ratios, past due status and questionable management capabilities. Collateral values generally afford adequate coverage, but may not be immediately marketable.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Substandard. Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts experiencing overdrafts. Immediate corrective action is necessary.

Doubtful. Specific weaknesses characterized as Substandard that are severe enough to make collection in full unlikely. There is no reliable secondary source of full repayment.

Loss. Loans categorized as Loss have the same characteristics as Doubtful however probability of loss is certain. Loans classified as Loss are generally charged-off.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are generally deposit account overdrafts that have not been assigned a grade.

As of June 30, 2011, December 31, 2010 and June 30, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (*in thousands*).

	September 30, Pass	September 30, Watch	September 30, Substandard	September 30, Doubtful / Loss	September 30, Not Rated	September 30, Total
<u>As of June 30, 2011</u>						
Commercial (secured by real estate)	\$ 1,508,284	\$ 98,175	\$ 135,295	\$	\$	\$ 1,741,754
Commercial construction	143,609	17,452	34,129			195,190
Commercial (commercial and industrial)	404,704	3,682	18,647		1,025	428,058
Total commercial	2,056,597	119,309	188,071		1,025	2,365,002
Residential construction	353,769	51,223	96,917			501,909
Residential mortgage	1,046,255	35,775	95,196			1,177,226
Consumer installment	114,718	608	3,984			119,310
Total loans	\$ 3,571,339	\$ 206,915	\$ 384,168	\$	\$ 1,025	\$ 4,163,447

As of December 31, 2010

Commercial (secured by real estate)	\$ 1,476,974	\$ 82,762	\$ 201,688	\$	\$	\$ 1,761,424
Commercial construction	174,049	10,413	112,120			296,582
Commercial (commercial and industrial)	402,969	15,153	22,379		1,017	441,518
Total commercial	2,053,992	108,328	336,187		1,017	2,499,524
Residential construction	398,926	82,973	213,267			695,166

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Residential mortgage	1,103,487	38,378	136,915			1,278,780
Consumer installment	125,134	650	4,872			130,656
Total loans	\$ 3,681,539	\$ 230,329	\$ 691,241	\$	\$ 1,017	\$ 4,604,126

As of June 30, 2010

Commercial (secured by real estate)	\$ 1,500,246	\$ 83,078	\$ 196,818	\$	\$	\$ 1,780,142
Commercial construction	210,471	35,360	96,309			342,140
Commercial (commercial and industrial)	402,795	7,858	29,285		1,159	441,097
Total commercial	2,113,512	126,296	322,412		1,159	2,563,379
Residential construction	485,047	97,208	237,675			819,930
Residential mortgage	1,173,580	49,337	132,665			1,355,582
Consumer installment	127,717	410	6,008	4		134,139
Total loans	\$ 3,899,856	\$ 273,251	\$ 698,760	\$ 4	\$ 1,159	\$ 4,873,030

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 7 Foreclosed Property

Major classifications of foreclosed properties at June 30, 2011, December 31, 2010 and June 30, 2010 are summarized as follows (*in thousands*).

	September 30, June 30, 2011	September 30, December 31, 2010	September 30, June 30, 2010
Commercial (secured by real estate)	\$ 11,944	\$ 25,893	\$ 14,390
Commercial construction	6,764	17,808	11,699
Total commercial	18,708	43,701	26,089
Residential construction	47,916	91,385	80,327
Residential mortgage	11,346	23,687	26,066
Total foreclosed property	77,970	158,773	132,482
Less valuation allowance	30,386	16,565	8,572
Foreclosed property, net	\$ 47,584	\$ 142,208	\$ 123,910

Balance as a percentage of original loan unpaid principal 32.6% 64.4% 71.9%

Activity in the valuation allowance for foreclosed property is presented in the following table (*in thousands*).

	September 30, Three Months Ended June 30,		September 30, Six Months Ended June 30,	
	2011	2010	2011	2010
Balance at beginning of year	\$ 53,023	\$ 9,992	\$ 16,565	\$ 7,433
Additions charged to expense	3,118	6,094	51,703	10,673
Direct write downs	(25,755)	(7,514)	(37,882)	(9,534)
Balance at end of period	\$ 30,386	\$ 8,572	\$ 30,386	\$ 8,572

Expenses related to foreclosed assets include (*in thousands*).

	September 30, Three Months Ended June 30,		September 30, Six Months Ended June 30,	
	2011	2010	2011	2010
Net (gain) loss on sales	\$ (3,218)	\$ 5,098	\$ 8,802	\$ 8,616
Provision for unrealized losses	3,118	6,094	51,703	10,673
Operating expenses, net of rental income	1,991	3,348	6,285	6,064
Total foreclosed property expense	\$ 1,891	\$ 14,540	\$ 66,790	\$ 25,353

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 8 Earnings Per Share

United is required to report on the face of the statement of operations, earnings (loss) per common share with and without the dilutive effects of potential common stock issuances from instruments such as options, convertible securities and warrants. Basic earnings per common share is based on the weighted average number of common shares outstanding during the period while the effects of potential common shares outstanding during the period are included in diluted earnings per common share. During the three and six months ended June 30, 2011 and 2010, United accrued dividends on preferred stock, including accretion of discounts, as shown in the following table (*in thousands*).

	September 30, Three Months Ended June 30, 2011	September 30, Three Months Ended June 30, 2010	September 30, Six Months Ended June 30, 2011	September 30, Six Months Ended June 30, 2010
Series A 6% fixed	\$ 4	\$ 4	\$ 7	\$ 7
Series B 5% fixed until December 6, 2013, 9% thereafter	2,598	2,573	5,200	5,142
Series D LIBOR plus 9.6875%, resets quarterly	414		587	
Total preferred stock dividends	\$ 3,016	\$ 2,577	\$ 5,794	\$ 5,149

All preferred stock dividends are payable quarterly.

Series B preferred stock was issued at a discount. Dividend amounts shown include discount accretion for each period.

There is no dilution from potentially dilutive securities for the six months ended June 30, 2011 and the three and six months ended June 30, 2010, due to the antidilutive effect of the net loss for those periods.

The following table sets forth the computation of basic and diluted loss per share for the three and six months ended June 30, 2011 and 2010 (*in thousands, except per share data*).

	September 30, Three Months Ended June 30, (As restated) 2011	September 30, Three Months Ended June 30, 2010	September 30, Six Months Ended June 30, (As restated) 2011	September 30, Six Months Ended June 30, (As restated) 2010
Net income (loss) available to common shareholder	\$ 9,012	\$ (62,109)	\$ (231,102)	\$ (97,974)

Weighted average shares outstanding:

Basic	25,427	18,905	21,965	18,891
Effect of dilutive securities				
Convertible securities	32,116			
Stock options				
Warrants				
Diluted	57,543	18,905	21,965	18,891

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Earnings (loss) per common share:

Basic	\$.35	\$	(3.29)	\$	(10.52)	\$	(5.19)
Diluted	\$.16	\$	(3.29)	\$	(10.52)	\$	(5.19)

At June 30, 2011, United had a number of potentially dilutive securities outstanding including a warrant to purchase 219,909 common shares at \$61.40 per share issued to the U.S. Treasury in connection with the issuance of United's Series B preferred stock; 129,670 shares issuable upon exercise of warrants attached to trust preferred securities with an exercise price of \$100 per share; 606,112 shares issuable upon exercise of stock options granted to employees with a weighted average exercise price of \$96.11; 390,947 shares issuable upon completion of vesting of restricted stock awards; 1,411,765 shares issuable upon exercise of warrants exercisable at \$21.25 per share granted to Fletcher International in connection with a 2010 asset purchase and sale agreement; 2,476,191 shares issuable upon conversion of preferred stock if Fletcher International exercises its option to purchase \$65 million in convertible preferred stock, convertible at \$26.25 per share; 1,162,791 shares issuable upon exercise of warrants, exercisable at \$30.10 per share to be granted to Fletcher International upon exercise of its option to acquire preferred stock; and 1,551,126 shares issuable upon exercise of warrants owned by Elm Ridge Off Shore Fund and Elm Ridge Value Fund, exercisable at \$12.50 per share.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements**Note 9 Derivatives and Hedging Activities****Risk Management Objective of Using Derivatives**

United is exposed to certain risks arising from both its business operations and economic conditions. United principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. United manages interest rate risk primarily by managing the amount, sources, and duration of its investment securities portfolio and debt funding and through the use of derivative financial instruments. Specifically, United enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. United's derivative financial instruments are used to manage differences in the amount, timing, and duration of United's known or expected cash receipts and its known or expected cash payments principally related to United's loans and wholesale borrowings.

The table below presents the fair value of United's derivative financial instruments as well as their classification on the consolidated balance sheet as of June 30, 2011, December 31, 2010 and June 30, 2010.

Derivatives designated as hedging instruments under ASC 815 *Hedge Accounting* (in thousands).

Interest Rate Products	September 30, Balance Sheet	September 30, June 30, 2011	September 30, Fair Value December 31, 2010	September 30, June 30, 2010
	Location			
Asset derivatives	Other assets	\$	\$	\$ 1,167

As of June 30, 2011, December 31, 2010 and June 30, 2010, United did not have any derivatives in a net liability position.

Cash Flow Hedges of Interest Rate Risk

United's objectives in using interest rate derivatives are to add stability to net interest revenue and to manage its exposure to interest rate movements. To accomplish this objective, United primarily uses interest rate swaps as part of its interest rate risk management strategy. For United's variable-rate loans, interest rate swaps designated as cash flow hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for United making variable-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate floors designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates fall below the strike rate on the contract in exchange for an up front premium. United had no active derivative contracts outstanding at June 30, 2011 or December 31, 2010 that were designated as cash flow hedges of interest rate risk.

The effective portion of changes in the fair value of derivatives designated, and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2010, such derivatives were used to hedge the variable cash flows associated with existing prime-based, variable-rate loans. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and six months ended June 30, 2011, \$2.81 million and \$4.11 million, respectively, in hedge ineffectiveness was recognized in other fee revenue. During the three and six months ended June 30, 2010, \$120,000 and \$642,000, respectively, in hedge ineffectiveness was recognized in other fee revenue.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest revenue as interest payments are received on United's prime-based, variable-rate loans. At June 30, 2011, the amount included in other comprehensive income represents deferred gains from terminated cash flow hedges where the forecasted hedging transaction is expected to remain effective over the remaining unexpired term of the original contract. Such gains are being deferred and recognized over the remaining life of the contract on a straight line basis. During the three and six months ended June 30, 2011, United accelerated the reclassification of \$2.81 million and \$4.11 million, respectively, in gains from terminated positions as a result of forecasted transactions becoming probable not to occur. During the next twelve months, United estimates that an additional \$7.24 million of the deferred gains on terminated cash flow hedging positions will be reclassified as

an increase to interest revenue.

Fair Value Hedges of Interest Rate Risk

United is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in LIBOR, a benchmark interest rate. United uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. Interest rate swaps designated as fair value hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for United making variable rate payments over the life of the agreements without the exchange of the underlying notional amount. As of June 30, 2011 and December 31, 2010, United had no active derivatives designated as fair value hedges of interest rate risk.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. United includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. During the three and six months ended June 30, 2011 and 2010, United recognized net gains of \$119,000 and \$207,000, respectively, related to ineffectiveness of the fair value hedging relationships. United also recognized a net reduction of interest expense of \$1.38 million for the three months ended June 30, 2010 related to United's fair value hedges, which includes net settlements on the derivatives. For the six months ended June 30, 2010, United recognized a net reduction of interest expense of \$3.16 million, related to United's fair value hedges. There were no active fair value hedges during the first six months of 2011.

Tabular Disclosure of the Effect of Derivative Instruments on the Income Statement

The tables below present the effect of United's derivative financial instruments on the consolidated statement of operations for the three and six months ended June 30, 2011 and 2010.

Derivatives in Fair Value Hedging Relationships (in thousands).

Location of Gain (Loss)	September 30, Amount of Gain (Loss) Recognized in Income on Derivative 2011	September 30, Amount of Gain (Loss) Recognized in Income on Derivative 2010	September 30, Amount of Gain (Loss) Recognized in Income on Hedged Item 2011	September 30, Amount of Gain (Loss) Recognized in Income on Hedged Item 2010
Recognized in Income on Derivative				
Three Months Ended June 30,				
Other fee revenue	\$	\$ (1,397)	\$	\$ 1,516
Six Months Ended June 30,				
Other fee revenue	\$	\$ (2,592)	\$	\$ 2,799

Derivatives in Cash Flow Hedging Relationships (in thousands).

Location	September 30, Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion) 2011	September 30, Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion) 2010	September 30, Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income Location 2011	September 30, Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income Location 2010
Three Months Ended June 30,				
			Interest revenue	\$ 4,922
			Other income	2,809
Interest rate products	\$	\$ 840	Total	\$ 5,042
Six Months Ended June 30,				
			Interest revenue	\$ 10,934
			Other income	4,112
Interest rate products	\$	\$ 2,314	Total	\$ 11,577

Credit-risk-related Contingent Features

United manages its credit exposure on derivatives transactions by entering into a bi-lateral credit support agreement with each counterparty. The credit support agreements require collateralization of exposures beyond specified minimum threshold amounts. The details of these agreements, including the minimum thresholds, vary by counterparty. At June 30, 2011, United had no active derivative positions and therefore no credit support agreements remained in effect.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 10 Stock-Based Compensation

United has an equity compensation plan that allows for grants of incentive stock options, nonqualified stock options, restricted stock awards (also referred to as nonvested stock awards), stock awards, performance share awards or stock appreciation rights. Options granted under the plan can have an exercise price no less than the fair market value of the underlying stock at the date of grant. The general terms of the plan include a vesting period (usually four years) with an exercisable period not to exceed ten years. Certain option and restricted stock awards provide for accelerated vesting if there is a change in control (as defined in the plan). As of June 30, 2011, 336,700 additional awards could be granted under the plan, subject to shareholder approval of a 400,000 increase in shares available under the plan. Through June 30, 2011, incentive stock options, nonqualified stock options, restricted stock awards and units and base salary stock grants had been granted under the plan.

The following table shows stock option activity for the first six months of 2011.

Options	September 30, Shares	September 30, Weighted- Average Exercise Price	September 30, Weighted- Average Remaining Contractual Term (Years)	September 30, Aggregate Intrinsic Value (\$000)
Outstanding at December 31, 2010	678,313	\$ 92.99		
Forfeited	(6,527)	42.59		
Expired	(65,674)	69.26		
Outstanding at June 30, 2011	606,112	96.11	4.4	\$
Exercisable at June 30, 2011	548,453	100.77	4.0	

No options were granted during the first six months of 2011. The fair value of each option is estimated on the date of grant using the Black-Scholes model. Because United's option plan has not been in place long enough to gather sufficient information about exercise patterns to establish an expected life, United uses the formula provided by the SEC in Staff Accounting Bulletin (SAB) No. 107 to determine the expected life of options.

The weighted average assumptions used to determine the fair value of stock options are presented in the table below.

	September 30, Six Months Ended June 30, 2011	September 30, Six Months Ended June 30, 2010
Expected volatility	NA	55.00%
Expected dividend yield	NA	0.00%
Expected life (in years)	NA	6.14
Risk-free rate	NA	3.19%

For 2010, expected volatility was determined using United's historical monthly volatility for over a period of 25 quarters ending December 31, 2009. Compensation expense relating to stock options of \$465,000 and \$1.1 million was included in earnings for the six months ended June 30, 2011 and 2010, respectively. Deferred tax benefits of \$181,000 and \$430,000, respectively, were included in the determination of income tax benefit for the six month periods ended June 30, 2011 and 2010. The amount of compensation expense for both periods was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that are expected to vest, which was then

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amortized over the vesting period. The forfeiture rate for options is estimated to be approximately 3% per year. No options were exercised during the first six months of 2011 or 2010.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The table below presents the activity in restricted stock awards for the first six months of 2011.

Restricted Stock	September 30, Shares	September 30, Weighted- Average Grant- Date Fair Value
Outstanding at December 31, 2010	23,214	\$ 59.67
Granted	375,532	10.25
Vested	(7,799)	51.86
Outstanding at June 30, 2011	390,947	12.35

Compensation expense for restricted stock is based on the fair value of restricted stock awards at the time of grant, which is equal to the value of United's common stock on the date of grant. The value of restricted stock grants that are expected to vest is amortized into expense over the vesting period. For the six months ended June 30, 2011 and 2010, compensation expense of \$293,000 and \$325,000, respectively, was recognized related to restricted stock awards. The total intrinsic value of the restricted stock was \$4.12 million at June 30, 2011.

As of June 30, 2011, there was \$5.18 million of unrecognized compensation cost related to non-vested stock options and restricted stock awards granted under the plan. That cost is expected to be recognized over a weighted-average period of 2.51 years. The aggregate grant date fair value of options and restricted stock awards that vested during the six months ended June 30, 2011, was \$1.99 million.

Note 11 Common and Preferred Stock Issued / Common Stock Issuable

United sponsors a Dividend Reinvestment and Share Purchase Plan (DRIP) that allows participants who already own United's common stock to purchase additional shares directly from the company. The DRIP also allows participants to automatically reinvest their quarterly dividends in additional shares of common stock without a commission. United's 401(k) retirement plan regularly purchases shares of United's common stock directly from United. In addition, United has an Employee Stock Purchase Program (ESPP) that allows eligible employees to purchase shares of common stock at a 5% discount, with no commission charges. For the six months ended June 30, 2011 and 2010, United issued 78,584 and 41,818 shares, respectively, and increased capital by \$744,000 and \$940,000, respectively, through these programs. The DRIP program has been suspended until 2012 when United expects to regain its S-3 filing status.

United offers its common stock as an investment option in its deferred compensation plan. The common stock component of the deferred compensation plan is accounted for as an equity instrument and is reflected in the consolidated financial statements as common stock issuable. At June 30, 2011 and 2010, 83,575 and 56,954 shares, respectively, were issuable under the deferred compensation plan.

On February 22, 2011, United entered into a share exchange agreement (the Share Exchange Agreement) with Elm Ridge Offshore Master Fund, Ltd. and Elm Ridge Value Partners, L.P. (collectively referred to as Elm Ridge Parties). Under the Share Exchange Agreement, the Elm Ridge Parties agreed to transfer to the Company 1,551,126 shares of the Company's common stock in exchange for 16,613 shares of the Company's cumulative perpetual preferred stock, Series D, and warrants to purchase 1,551,126 common shares with an exercise price of \$12.50 per share that expires on August 22, 2013. This exchange transaction did not result in a net increase or decrease to total shareholder's equity for the six months ended June 30, 2011.

During the first quarter of 2011, United entered into investment agreements (the Investment Agreements) with Corsair Georgia, L.P. (Corsair) and a group of institutional investors (the Additional Investors). United issued 3,467,699 of the Company's common stock for \$9.50 per share, 195,872 shares of mandatorily convertible cumulative non-voting perpetual preferred stock, Series F (the Series F Preferred Stock), and 151,185 shares of mandatorily convertible cumulative non-voting perpetual preferred stock, Series G (the Series G Preferred Stock). Under the terms of the Investment Agreements and following receipt of required shareholder approvals which were received on June 16, 2011, at United's annual shareholders' meeting, the Series F Preferred Stock converted into 20,618,090 shares of voting common stock and the Series G Preferred Stock converted into 15,914,209 shares of non-voting common stock. This private placement transaction resulted in an increase to shareholders' equity

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of \$362 million, net of \$18.4 million in issuance costs. Following conversion of the convertible preferred stock, Corsair owned approximately 22.5% of United's total outstanding common stock. The Additional Investors owned approximately 47.2% of United's outstanding common stock.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 12 Reclassifications and Reverse Stock Split

Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

Note 13 Discontinued Operations

On March 31, 2010, United completed the sale of its consulting subsidiary, Brintech, Inc. (Brintech). The sales price was \$2.9 million with United covering certain costs related to the sale transaction resulting in a net, pre-tax gain of \$2.1 million. As a result of the sale, Brintech is presented in the consolidated financial statements as a discontinued operation with all revenue and expenses related to the sold operations deconsolidated from the consolidated statement of operations for all periods presented. The net results of operations from Brintech are reported on a separate line on the consolidated statement of operations titled Loss from discontinued operations, net of income taxes. The gain from the sale, net of income taxes and selling costs, is presented on a separate line titled Gain from sale of subsidiary, net of income taxes and selling costs.

Note 14 Transaction with Fletcher International

On April 1, 2010, United entered into a securities purchase agreement with Fletcher International, Ltd. and the Bank entered into an asset purchase and sale agreement with Fletcher International, Inc. and certain affiliates thereof. Under the terms of the agreements, the Bank sold \$103 million in nonperforming commercial and residential mortgage loans and foreclosed properties to Fletcher's affiliates with a nominal aggregate sales price equal to the Bank's carrying amount. The nonperforming assets sale transaction closed on April 30, 2010. The consideration for the sale consisted of \$20.6 million in cash and a loan for \$82.4 million. Fletcher formed six affiliated LLCs to purchase the nonperforming assets from United. A separate loan was made to each of the affiliated LLCs with the assets of each LLC cross pledged as collateral to each of the six loans. The loans each have a five year term with principal and interest payments required according to a 20-year amortization table. Interest accrues at a fixed rate of 3.5%. Additional principal payments are required prior to the release of properties serving as collateral for the loans as those properties are sold. The loans have paid according to their contractual terms since their inception.

As part of the agreement, Fletcher received a warrant to acquire 1,411,765 shares of United's common stock at a price of \$21.25 per share. The warrant has a nine year term and expires on May 26, 2019. To date, the warrant has not been exercised. In accordance with the terms of the securities purchase agreement, Fletcher has the right during the next two years to purchase up to \$65 million in United's Series C Convertible Preferred Stock. The Series C Convertible Preferred Stock pays a dividend equal to the lesser of 8% or LIBOR plus 4%. The Series C Convertible Preferred Stock is convertible by Fletcher into common stock at \$26.25 per share (2,476,191 shares). If Fletcher had not purchased all of the Series C Convertible Preferred Stock by May 29, 2011, it was required to pay United 5% of the commitment amount not purchased by such date, and it must pay United an additional 5% of the commitment amount not purchased by May 29, 2012. Fletcher has paid United \$3.25 million as it had not purchased the Series C Convertible Preferred Stock as of May 29, 2011. The payment was recorded directly in shareholders equity, net of applicable income tax effects. Fletcher will receive an additional warrant to purchase \$35 million in common stock at \$30.10 per share (1,162,791 shares) when it purchases the last \$35 million of Series C Convertible Preferred Stock. All of the warrants settle on a cashless exercise basis and the net shares to be delivered upon cashless exercise will be less than what would have been issuable if the warrant had been exercised for cash.

All of the components of the transaction, including all equity instruments issued under the securities purchase agreement and the notes receivable received as consideration from the sale of nonperforming assets were recorded at fair value. Because the value of the equity instruments and assets exchanged in the transaction exceeded the value of the cash and notes receivable received, United recorded a loss of \$45.3 million on the transaction with Fletcher in the second quarter of 2010.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The table below presents a summary of the assets and equity instruments transferred and received at their respective fair values (\$ in thousands, except per share amounts).

	September 30, Valuation Approach	September 30, Fair Value Hierarchy	September 30, Fair Value
Warrants Issued / Assets Transferred to Fletcher at Fair Value:			
Warrant to purchase \$30 million in common stock at \$21.25 per share	Black-Scholes	Level 3	\$ 17,577
Option to purchase convertible preferred stock and warrant	Monte-Carlo Simulation	Level 3	22,236
Fair value of equity instruments recognized in capital surplus			39,813
Foreclosed properties transferred under Asset Purchase Agreement	Appraised Value	Level 2	33,434
Nonperforming loans transferred under Asset Purchase Agreement	Collateral Appraised Value	Level 2	69,655
Total nonperforming assets transferred			103,089
Total value of assets and equity instruments transferred			142,902
Less Cash and Notes Receivable Received in Exchange at Fair Value:			
Cash down payment received from asset sale	NA	NA	20,618
Notes receivable (par value \$82,471, net of \$4,531 discount)	Discounted Cash Flows	Level 3	77,940
Total value of cash and notes receivable received			98,558
Fair value of assets and equity instruments transferred in excess of cash and notes received			44,344
Transaction fees			1,005
Loss recognized on Fletcher transaction			\$ 45,349

The \$17.6 million value of the warrant to purchase \$30 million in common stock was determined as of April 1, 2010, the date the terms were agreed to. The following modeling assumptions were used: dividend yield 0%; risk-free interest rate 3.89%; current stock price \$23.85; term 9 years; and volatility 33%. Although most of the modeling assumptions were based on observable data, because of the subjectivity involved in estimating expected volatility, the valuation is considered Level 3.

The \$22.2 million value of the option to purchase convertible preferred stock and warrant was determined by an independent valuation firm using a Monte Carlo Simulation method appropriate for valuing complex securities with derivatives. The model uses 50,000 simulations of daily stock price paths using geometric Brownian motion and incorporates in a unified way all conversion, exercise and contingency conditions. Because of the significant assumptions involved in the valuation process, not all of which were based on observable data, the valuation is considered to be Level 3.

The \$103 million of nonperforming assets sold were transferred at United's carrying amount which had previously been written down to appraised value. Because the appraisals were based on sales of similar assets (observable data), the valuation is considered to be Level 2.

The \$82.5 million of notes receivable were recorded at their estimated fair value of \$77.9 million, net of a \$4.5 million interest discount, which was determined based on discounted expected cash flows over the term at a rate commensurate with the credit risk inherent in the notes. The

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contractual rate on the notes is fixed at 3.5% for five years. The discount rate used for purposes of determining the fair value of the notes was 5.48% based on the terms, structure and risk profile of the notes. Note prepayments were estimated based on the expected marketing time for the underlying collateral since the notes require that principal be reduced as the underlying assets are sold. The valuation is considered Level 3 due to estimated prepayments which have a significant impact on the value and are not based on observable data.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 15 Assets and Liabilities Measured at Fair Value

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The table below presents United's assets and liabilities measured at fair value on a recurring basis as of June 30, 2011, December 31, 2010 and June, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands).

June 30, 2011	September 30, Level 1	September 30, Level 2	September 30, Level 3	September 30, Total
Assets				
Securities available for sale:				
U.S. Government agencies	\$	\$ 77,477	\$	\$ 77,477
State and political subdivisions		26,772		26,772
Mortgage-backed securities		1,588,489	4,129	1,592,618
Other		119,396	350	119,746
Deferred compensation plan assets	3,025			3,025
Total	\$ 3,025	\$ 1,812,134	\$ 4,479	\$ 1,819,638
Liabilities				
Deferred compensation plan liability	\$ 3,025	\$	\$	\$ 3,025
Total liabilities	\$ 3,025	\$	\$	\$ 3,025
December 31, 2010				
Assets				
Securities available for sale:				
U.S. Government agencies	\$	\$ 98,480	\$	\$ 98,480
State and political subdivisions		28,442		28,442
Mortgage-backed securities		986,074	4,934	991,008
Other		106,137	350	106,487
Deferred compensation plan assets	3,252			3,252
Total	\$ 3,252	\$ 1,219,133	\$ 5,284	\$ 1,227,669
Liabilities				
Deferred compensation plan liability	\$ 3,252	\$	\$	\$ 3,252
Total liabilities	\$ 3,252	\$	\$	\$ 3,252
June 30, 2010				
	September 30, Level 1	September 30, Level 2	September 30, Level 3	September 30, Total

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Assets

Securities available for sale:

U.S. Government agencies	\$	\$	179,172	\$	38,523	\$	217,695	
State and political subdivisions			33,985				33,985	
Mortgage-backed securities			884,514		16,254		900,768	
Other			12,278		1,050		13,328	
Deferred compensation plan assets		2,701					2,701	
Derivative financial instruments			1,167				1,167	
Total	\$	2,701	\$	1,111,116	\$	55,827	\$	1,169,644

Liabilities

Deferred compensation plan liability	\$	2,701	\$		\$		\$	2,701
Total liabilities	\$	2,701	\$		\$		\$	2,701

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table shows a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs that are classified as Level 3 values (in thousands).

	September 30, Securities Available for Sale
Balance at December 31, 2010	\$ 5,284
Amounts included in earnings	(13)
Paydowns	(792)
Balance at June 30, 2011	\$ 4,479

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

United may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The table below presents United's assets and liabilities measured at fair value on a nonrecurring basis as of June 30, 2011, December 31, 2010 and June 30, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands).

	September 30, Level 1	September 30, Level 2	September 30, Level 3	September 30, Total
June 30, 2011				
Assets				
Loans	\$	\$	\$ 27,810	\$ 27,810
Foreclosed properties			41,922	41,922
Total	\$	\$	\$ 69,732	\$ 69,732
December 31, 2010				
Assets				
Loans	\$	\$	\$ 106,904	\$ 106,904
Foreclosed properties			85,072	85,072
Total	\$	\$	\$ 191,976	\$ 191,976
June 30, 2010				
Assets				
Loans	\$	\$	\$ 140,807	\$ 140,807
Foreclosed properties			70,686	70,686
Total	\$	\$	\$ 211,493	\$ 211,493

Assets and Liabilities Not Measured at Fair Value

For financial instruments that have quoted market prices, those quotes are used to determine fair value. Financial instruments that have no defined maturity, have a remaining maturity of 180 days or less, or reprice frequently to a market rate, are assumed to have a fair value that

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approximates reported book value, after taking into consideration any applicable credit risk. If no market quotes are available, financial instruments are valued by discounting the expected cash flows using an estimated current market interest rate for the financial instrument. For off-balance sheet derivative instruments, fair value is estimated as the amount that United would receive or pay to terminate the contracts at the reporting date, taking into account the current unrealized gains or losses on open contracts.

The short maturity of United's assets and liabilities results in having a significant number of financial instruments whose fair value equals or closely approximates carrying value. Such financial instruments are reported in the following balance sheet captions: cash and cash equivalents, mortgage loans held for sale, federal funds purchased, repurchase agreements and other short-term borrowings. The fair value of securities available for sale equals the balance sheet value. As of June 30, 2010 the fair value of interest rate contracts used for balance sheet management was an asset of approximately \$1.17 million. United did not have any active derivative contracts outstanding at June 30, 2011 or December 31, 2010.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect the premium or discount on any particular financial instrument that could result from the sale of United's entire holdings. Because no ready market exists for a significant portion of United's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include the mortgage banking operation, brokerage network, deferred income taxes, premises and equipment and goodwill. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have significant effect on fair value estimates and have not been considered in the estimates.

Off-balance sheet instruments (commitments to extend credit and standby letters of credit) are generally short-term and at variable rates. Therefore, both the carrying amount and the estimated fair value associated with these instruments are immaterial.

The carrying amount and fair values for other financial instruments that are not measured at fair value in United's balance sheet at June 30, 2011, December 31, 2010, and June 30, 2010 are as follows (in thousands).

	September 30, June 30, 2011		September 30, December 31, 2010		September 30, June 30, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:						
Securities held to maturity	\$ 371,578	\$ 379,231	\$ 265,807	\$ 267,988	\$ 322,148	\$ 327,497
Loans, net	4,035,809	3,889,669	4,429,431	4,196,142	4,698,919	4,407,376
Liabilities:						
Deposits	6,183,215	6,174,117	6,469,172	6,481,867	6,329,512	6,350,449
Federal Home Loan Bank advances	40,625	43,763	55,125	59,498	104,138	110,964
Long-term debt	150,186	140,771	150,146	93,536	150,106	122,949

Note 16 Bulk Sale of Loans

On April 18, 2011, United completed the bulk sale of \$80.6 million of loans that were reported as held for sale at March 31, 2011. The proceeds from the bulk sale were \$87.9 million which resulted in a reduction of charge-offs in the second quarter of 2011.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended, (the Exchange Act), about United and its subsidiaries. These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact, and can be identified by the use of forward-looking terminology such as believes, expects, may, will, could, should, projects, plans, goal, targets, potential, seeks, intends, or anticipates or the negative thereof or comparable terminology. Forward-looking statements include discussions of strategy, financial projections, guidance and estimates (including their underlying assumptions), statements regarding plans, objectives, expectations or consequences of various transactions, and statements about the future performance, operations, products and services of United and its subsidiaries. We caution our shareholders and other readers not to place undue reliance on such statements.

Our businesses and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experience may materially differ from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2010, as well as the following:

our ability to maintain profitability;

our ability to fully realize our deferred tax asset balances, including net operating loss carryforwards;

the condition of the banking system and financial markets;

the results of our most recent internal credit stress test may not accurately predict the impact on our financial condition if the economy was to continue to deteriorate;

our ability to raise capital as may be necessary;

our ability to maintain liquidity or access other sources of funding;

changes in the cost and availability of funding;

the success of the local economies in which we operate;

our concentrations of residential and commercial construction and development loans and commercial real estate loans are subject to unique risks that could adversely affect our earnings;

changes in prevailing interest rates may negatively affect our net income and the value of our assets;

the accounting and reporting policies of United;

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if our allowance for loan losses is not sufficient to cover actual loan losses;

we may be subject to losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;

competition from financial institutions and other financial service providers;

the United States Department of Treasury may change the terms of our Series B Preferred Stock;

risks with respect to future expansion and acquisitions;

conditions in the stock market, the public debt market and other capital markets deteriorate;

the impact of the Dodd-Frank Act and related regulations and other changes in financial services laws and regulations;

the failure of other financial institutions;

a special assessment that may be imposed by the Federal Deposit Insurance Corporation (FDIC) on all FDIC-insured institutions in the future, similar to the assessment in 2009 that decreased our earnings; and

regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators that occur, or any such proceedings or enforcement actions that is more severe than we anticipate.

Additional information with respect to factors that may cause actual results to differ materially from those contemplated by such forward-looking statements may also be included in other reports that United files with the Securities and Exchange Commission. United cautions that the foregoing list of factors is not exclusive and not to place undue reliance on forward-looking statements. United does not intend to update any forward-looking statement, whether written or oral, relating to the matters discussed in this Form 10-Q.

Overview

The following discussion is intended to provide insight into the results of operations and financial condition of United Community Bank, Inc. (United) and its subsidiaries and should be read in conjunction with the consolidated financial statements and accompanying notes.

United is a bank holding company registered with the Federal Reserve under the Bank Holding Company Act of 1956 that was incorporated under the laws of the state of Georgia in 1987 and commenced operations in 1988. At June 30, 2011 United had total consolidated assets of \$7.15 billion, total loans of \$4.16 billion, excluding the loans acquired from Southern Community Bank (SCB) that are covered by loss sharing agreements and therefore have a different risk profile. United also had total deposits of \$6.18 billion and stockholders' equity of \$603 million.

United's activities are primarily conducted by its wholly owned Georgia banking subsidiary (the Bank). The Bank operations are conducted under a community bank model that operates 27 community banks with local bank presidents and boards in north Georgia, the Atlanta-Sandy Springs-Marietta, Georgia metropolitan statistical area (the Atlanta MSA), the Gainesville, Georgia metropolitan statistical area (the Gainesville MSA), coastal Georgia, western North Carolina, and east Tennessee.

On March 31, 2010, United sold Brintech, Inc., (Brintech) a consulting services firm for the financial services industry, resulting in a pre-tax gain of \$2.1 million, net of selling costs. The income statements for all periods presented reflect Brintech as a discontinued operation with revenue, expenses and income taxes related to Brintech removed from revenue, expenses, income taxes and loss from continuing operations. The balance sheet and cash flow statement have not been adjusted to reflect Brintech's assets and contribution to cash flows were not material.

On June 17, 2011, United completed a 1-for-5 reverse stock split, whereby each 5 shares of United's common stock was reclassified into one share of common stock, and each 5 shares of United's non-voting common stock was reclassified into one share of non-voting common stock. All prior periods presented have been adjusted to reflect the reclassification.

Operating income (loss) from continuing operations and operating income (loss) from continuing operations per diluted share are non-GAAP performance measures. United's management believes that operating performance is useful in analyzing United's financial performance trends since it excludes items that are non-recurring in nature and therefore most of the discussion in this section will refer to operating performance measures. A reconciliation of these operating performance measures to GAAP performance measures is included in the table on page 38.

United reported net operating income from continuing operations of \$12.0 million for the second quarter of 2011. This compared to a net operating loss from continuing operations of \$59.5 million for the second quarter of 2010. Diluted operating income from continuing operations per common share was \$.16 for the second quarter of 2011, compared to a diluted operating loss from continuing operations per common share of \$3.29 for the second quarter of 2010. The loss on sale of nonperforming assets to Fletcher added approximately \$1.59 per share to the diluted operating loss from continuing operations for the second quarter of 2010.

For the six months ended June 30, 2011, United reported a net operating loss from continuing operations of \$225 million. This compared to a net operating loss from continuing operations of \$94.0 million for the first six months of 2010, which included the \$30.0 million after-tax loss from the Fletcher transaction. Net loss for the six months ended June 30, 2010, which includes discontinued operations, totaled \$92.8 million. Diluted operating loss from continuing operations per common share was \$10.52 for the six months ended June 30, 2011, compared with diluted operating loss from continuing operations per common share of \$5.25 for the same period in 2010.

United's operating provision for loan losses was \$11.0 million for the three months ended June 30, 2011, compared to \$61.5 million for the same period in 2010. Net charge-offs for the second quarter of 2011 were \$16.5 million, compared to \$61.3 million for the second quarter of 2010. For the six months ended June 30, 2011, United's operating provision for loan losses was \$201 million, compared to \$137 million for the same period of 2010. Net charge-offs for the first six months of 2011 were \$248 million, compared to \$118 million for the first six months of 2010. During the first quarter of 2011, performing substandard loans with a pre-charge down carrying amount of \$166 million and nonperforming loans with a pre-charge down carrying amount of \$101 million were collectively written down to the expected sales proceeds of \$80.6 million, in conjunction with a bulk transaction (the Bulk Loan Sale). United recognized net charge-offs of \$186 million related to the transfer of loans to the held for sale classification in the first quarter. The Bulk Loan Sale was completed on April 18, 2011. Proceeds from the sale were greater than originally estimated, resulting in a reduction of second quarter charge-offs of \$7.27 million. As of June 30, 2011, United's allowance for loan losses was \$128 million, or 3.07% of loans, compared to \$174 million, or 3.57% of loans, at June 30, 2010. Nonperforming assets of \$119 million, which excludes assets of SCB that are covered by loss sharing agreements with the FDIC, decreased to 1.66% of total assets at June 30, 2011, compared to 4.42% as of December 31, 2010 and 4.55% as of June 30, 2010. The decrease in this ratio was due to the execution of a plan to sell approximately \$293 million in substandard and nonperforming loans, and to accelerate the disposition of approximately \$142 million in foreclosed properties (the Problem Asset Disposition Plan) as well as a general improving trend in credit quality indicators.

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Taxable equivalent net interest revenue was \$58.9 million for the second quarter of 2011, compared to \$61.6 million for the same period of 2010. The decrease in net interest revenue was primarily the result of a 19 basis point decrease in the net interest margin offset by a \$69.3 million increase in average interest earning assets. Average loans for the quarter declined \$745 million from the

second quarter of 2010. Net interest margin decreased from 3.60% for the three months ended June 30, 2010 to 3.41% for the same period in 2011. For the six months ended June 30, 2011, taxable equivalent net interest revenue was \$115 million, compared to \$123 million for the same period of 2010. Net interest margin decreased from 3.55% for the six months ended June 30, 2010 to 3.36% for the same period in 2011. Interest reversals on performing loans that were moved to held for sale accounted for 6 basis points of the 19 basis points decrease. Over the past year, United has maintained above normal levels of liquidity. The level of excess liquidity peaked in the first six months of 2011 and lowered the margin by approximately 49 basis points in the first quarter and 76 basis points in the second quarter. In order to reduce the amount of excess liquidity, United has called its callable brokered deposits and does not plan to replace any maturing brokered deposits. Additionally, United has lowered rates on retail certificates of deposit and other deposit products which is expected to result in some balance attrition.

Operating fee revenue increased \$2.33 million, or 20%, and \$2.50 million, or 11% from the second quarter and first six months of 2010, respectively. The increase was primarily attributable to the acceleration of deferred gains related to the ineffectiveness of terminated cash flow hedges. This helped to offset a decline in service charges and fees, which were down \$385,000 and \$1.11 million, respectively, for the three and six month periods, due to regulatory changes.

For the second quarter of 2011, operating expenses of \$48.7 million were down \$54.9 million from the second quarter of 2010. The loss on sale of nonperforming assets in 2010 represented \$45.3 million of the decrease. Lower foreclosed property costs accounted for \$12.6 million of the decrease. For the six months ended June 30, 2011, operating expenses of \$164 million were up \$5.52 million from the same period of 2010. The increase was primarily due to an increase in foreclosed property costs, in anticipation of the Bulk Loan Sale and other accelerated asset dispositions. Foreclosed property costs were up \$41.4 million from the first six months of 2010.

Recent Developments

On June 16, 2011 shareholders approved the conversion of \$195.9 million of Series F and \$151.2 million of Series G Mandatorily Convertible Perpetual Preferred Stock into 20,618,090 shares of United's common stock and 15,914,209 shares of United's non-voting common stock, respectively. The conversion occurred as of the close of business on June 20, 2011 pursuant to the March 30, 2011 private placement agreements with a group of institutional investors.

On February 22, 2011, the Company entered into a share exchange agreement with Elm Ridge Offshore Master Fund, Ltd. and Elm Ridge Value Partners, L.P. (collectively, the Elm Ridge Parties). Under the share exchange agreement, the Elm Ridge Parties agreed to transfer to the Company 1,551,126 shares of the Company's common stock in exchange for 16,613 shares of the Company's cumulative perpetual preferred stock, Series D and warrants to purchase 1,551,126 common shares. See Note 10 to the consolidated financial statements for further details of the share exchange agreement.

Also during the first quarter of 2011, the Board of Directors approved the Problem Asset Disposition Plan. Accordingly, substandard and nonperforming loans were sold by the Bank for an aggregate purchase price of approximately \$87.9 million in the Bulk Loan Sale on April 18, 2011 pursuant to an asset purchase and sale agreement (the Asset Purchase Agreement) entered into by the Bank, CF Southeast LLC (CF Southeast) and CF Southeast Trust 2011-1 (CF Trust) and together with CF Southeast, the Purchasers).

Critical Accounting Policies

The accounting and reporting policies of United are in accordance with accounting principles generally accepted in the United States of America (GAAP) and conform to general practices within the banking industry. The more critical accounting and reporting policies include United's accounting for the allowance for loan losses, fair value measurements, and income taxes. In particular, United's accounting policies related to allowance for loan losses, fair value measurements and income taxes involve the use of estimates and require significant judgment to be made by management. Different assumptions in the application of these policies could result in material changes in United's consolidated financial position or consolidated results of operations. See Asset Quality and Risk Elements herein for additional discussion of United's accounting methodologies related to the allowance for loan losses.

GAAP Reconciliation and Explanation

This Form 10-Q contains non-GAAP financial measures, which are performance measures determined by methods other than in accordance with GAAP. Such non-GAAP financial measures include, among others the following: operating provision for loan losses, operating fee revenue, operating revenue, operating expense, operating (loss) income from continuing operations, operating (loss) income, operating earnings (loss) from continuing operations per share, operating earnings (loss) per share, operating earnings (loss) from continuing operations per diluted share and operating earnings (loss) per diluted share. Management uses these non-GAAP financial measures because it believes they are useful for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial results and credit trends, as well as comparison to financial results for prior periods. These

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non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A reconciliation of these operating performance measures to GAAP performance measures is included in on the table on page 38.

Discontinued Operations

Effective March 31, 2010, United sold its Brintech subsidiary. As a result, the operations of Brintech are being accounted for as a discontinued operation. All revenue, including the gain from the sale, expenses and income taxes relating to Brintech have been deconsolidated from the consolidated statement of operations and are presented on one line titled "Loss from discontinued operations" for all periods presented. Because Brintech's assets, liabilities and cash flows were not material to the consolidated balance sheet and statement of cash flows, no such adjustments have been made to those financial statements.

Transaction with Fletcher International*Description of Transaction*

On April 1, 2010, the Bank entered into an asset purchase and sale agreement (the "Asset Purchase Agreement") with Fletcher International Inc. ("Fletcher Inc.") and five separate limited liability companies ("LLCs") affiliates of Fletcher Inc. for the purpose of acquiring nonperforming assets under the Asset Purchase Agreement. United has no ownership interest in the LLCs. The asset sale transaction was completed on April 30, 2010 with the Bank transferring nonperforming commercial and residential construction loans and foreclosed properties having a carrying value of \$103 million in exchange for cash of \$20.6 million and notes receivable for \$82.5 million.

The loans made to the LLCs in connection with their respective purchases are the same for all six loans. The loans have an initial term of five years and principal and interest payments are based on a 20-year amortization schedule. The assets in the LLCs are all cross-pledged as collateral on all six loans. Correspondingly, prepayments on the loans are required as properties are sold in order for the collateral to be released upon sale. The interest rate during the loan term is fixed at 3.50% for all loans and, accordingly, each loan was recorded at a discount as the interest rate was considered below market. At the time the LLCs were formed, they were capitalized with sufficient cash to make the required 20% down payment on the purchase and 17.5% of the purchase price in cash and securities to cover the first three years of required cash flows. According to the terms of the agreements, at least one year of estimated cash flow requirements must be held in cash. These funds are held in escrow as additional collateral on the loans and cannot be removed by Fletcher Inc. without United's consent. The securities that can be held by the LLCs are marketable equity securities and funds managed by Fletcher affiliates. Carrying costs include debt service payments, servicing fees and other direct costs associated with holding and managing the underlying properties. Cash flow from expected sales of underlying assets (loans/foreclosed real estate) is expected to provide sufficient cash flow to service the loans beyond the first three years and through the remainder of the loan terms. While recent news articles and other sources have questioned the financial health of Fletcher and its affiliates, the loans to the LCCs have performed according to their contractual terms since inception and there have been no delinquencies to date. As a result, even though these loans represent our largest loan relationship, we consider these loans performing and have not established specific reserves related to them. Should our assessment of this loan relationship change, we would then take appropriate action.

Also on April 1, 2010, United and Fletcher International Ltd ("Fletcher Ltd.", together with Fletcher Inc. and their affiliates, "Fletcher"), entered into a securities purchase agreement (the "Securities Purchase Agreement") pursuant to which Fletcher Ltd. agreed to purchase from United, and United agreed to issue and sell to Fletcher Ltd., 65,000 shares of United's Series C convertible preferred stock, par value \$1.00 per share (the "Convertible Preferred Stock"), at a purchase price of \$1,000 per share, for an aggregate purchase price of \$65 million. The Convertible Preferred Stock will bear interest at an annual rate equal to the lesser of 8% or LIBOR + 4%. If all conditions precedent to Fletcher Ltd.'s obligations to purchase the Convertible Preferred Stock have been satisfied and Fletcher Ltd. had not purchased all of the Convertible Preferred Stock by May 29, 2011, it was required to pay United 5% of the commitment amount not purchased by such date, and it must pay United an additional 5% of any commitment amount not purchased by May 29, 2012. Fletcher has paid United \$3.25 million as it had not purchased the Series C Convertible Preferred Stock as of May 29, 2011. As such penalty payment is associated with Fletcher's option to purchase preferred stock and is therefore considered an equity transaction, it was recorded as an increase to capital surplus in shareholders' equity.

The Convertible Preferred Stock is redeemable by Fletcher Ltd. at any time into common stock or non-voting Common Stock Equivalent Junior Preferred Stock ("Junior Preferred Stock") of United, at an equivalent price of \$26.25 per share of common stock (equal to 2,476,190 shares of common stock), subject to certain adjustments. After May 26, 2015, if the closing stock price for United's common stock is above \$60.20, United has the right to require conversion and it is United's intent to convert all of the then outstanding Convertible Preferred Stock into an equivalent amount of common stock or Junior Preferred Stock.

Concurrently with the payment of the \$10 million deposit under the Asset Purchase Agreement by Fletcher, United granted a warrant to Fletcher to purchase Junior Preferred Stock. The warrant was initially equal to \$15 million and was increased to \$30 million upon the completion of the asset sale pursuant to the Asset Purchase Agreement. An additional \$35 million warrant will be issued on a dollar for dollar basis by the aggregate dollar amount of the Convertible Preferred Stock purchased under the Securities Purchase Agreement in excess of \$30 million. The \$30 million warrant price is equivalent to \$21.25 per common share (cash exercise equal to 1,411,765 shares of common stock). The warrant has a nine year term and expires on May 26, 2019. To date, the warrant has not been exercised. The \$35 million warrant price is equivalent to \$30.10 per common share (cash exercise equal to 1,162,791 shares of common stock). The warrants may only be exercised by net share settlement (cashless exercise) and are exercisable for nine years from May 26, 2010, subject to limited extension upon certain events specified in the warrant agreement. All of the warrants settle on a cashless basis and the net shares to be issued to Fletcher Ltd. upon exercise of the warrants will be less than the total shares that would have been issuable if the warrants had been exercised for cash payments.

Also, as part of the transaction, United and Fletcher entered into a servicing agreement whereby United will act as servicer of the nonperforming assets for Fletcher in exchange for a servicing fee of 20 basis points. Because the servicing arrangement is considered a normal servicing arrangement and the fee is appropriate for the services provided, United did not recognize a servicing asset or liability related to the servicing agreement.

Accounting Treatment

Although the Asset Purchase Agreement and the Securities Purchase Agreement are two separate agreements, they were accounted for as part of one transaction because they were entered into simultaneously and the Securities Purchase Agreement was dependent upon the sale of nonperforming assets. United evaluated this transaction to determine whether the transfer should be accounted for as a sale or a secured borrowing and whether the Fletcher LLCs should be consolidated with United. When evaluating whether the transfer should be accounted for as a sale, United primarily evaluated whether control had been surrendered, the rights of Fletcher to exchange and pledge the assets, and whether United retains effective control, which included evaluating any continuing involvement in the assets. Based on the evaluation, the transfer of assets under the Asset Purchase Agreement meets the definition as a sale under current accounting standards and was accounted for as such. United further evaluated whether the Fletcher LLCs should be consolidated which included evaluating whether United has a controlling financial interest and is therefore the primary beneficiary. This evaluation principally included determining whether United directs the activities that have the most significant impact on the LLCs economic performance and whether United has an obligation to absorb losses or the right to receive benefits that could be significant to the LLCs. Based on that evaluation, the LLCs have not been included as part of the consolidated group of subsidiaries in United's consolidated financial statements.

In addition to evaluating the accounting for the transfer of assets, United considered whether the warrant and the option to purchase convertible preferred stock with an additional warrant should be accounted for as liabilities or equity instruments. In making this evaluation, United considered whether Fletcher or any subsequent holders of the instruments could require settlement of the instruments in cash or other assets rather than common or preferred stock. Because the transaction was structured so that the warrants and option to purchase convertible preferred stock and the additional warrant can only be settled through the issuance of common or preferred stock, United concluded that the warrant and option to purchase convertible preferred stock with an additional warrant should be accounted for as equity instruments.

All of the components of the transaction, including all equity instruments issued under the Securities Purchase Agreement and the notes receivable received as consideration from the sale of nonperforming assets were recorded at fair value. Because the value of the equity instruments and assets exchanged in the transaction exceeded the value of the cash and notes receivable received, United recorded a loss of \$45.3 million on the transaction with Fletcher.

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The table below presents a summary of the assets and equity instruments transferred and received at their respective fair values (\$ in thousands, except per share amounts).

	September 30, Valuation Approach	September 30, Fair Value Hierarchy	September 30, Fair Value
Warrants Issued / Assets Transferred to Fletcher at Fair Value:			
Warrant to purchase \$30 million in common stock at \$21.25 per share	Black-Scholes	Level 3	\$ 17,577 ⁽¹⁾
Option to purchase convertible preferred stock and warrant	Monte-Carlo Simulation	Level 3	22,236 ⁽²⁾
Fair value of equity instruments recognized in capital surplus			39,813
Foreclosed properties transferred under Asset Purchase Agreement	Appraised Value	Level 2	33,434 ⁽³⁾
Nonperforming loans transferred under Asset Purchase Agreement	Collateral Appraised Value	Level 2	69,655 ⁽³⁾
Total nonperforming assets transferred			103,089
Total value of assets and equity instruments transferred			142,902
Cash and Notes Receivable Received in Exchange at Fair Value:			
Cash down payment received from asset sale	NA	NA	20,618
Notes receivable (par value \$82,471, net of \$4,531 discount)	Discounted Cash Flows	Level 3	77,940 ⁽⁴⁾
Total value of cash and notes receivable received			98,558
Fair value of assets and equity instruments transferred in excess of cash and notes received			44,344
Transaction fees			1,005
Loss recognized on Fletcher transaction			\$ 45,349

Notes

(1) The \$17.6 million value of the \$30 million warrant was determined as of April 1, 2010, the date the terms were agreed to and signed. The following modeling assumptions were used: dividend yield 0%; risk-free interest rate 3.89%; current stock price \$23.85; term 9 years; and volatility 33%. Although most of the modeling assumptions were based on observable data, because of the subjectivity involved in estimating expected volatility, the valuation is considered Level 3.

(2) The \$22.2 million value of the option to purchase convertible preferred stock and warrant was determined by an independent valuation firm using a Monte Carlo Simulation method appropriate for valuing complex securities with derivatives. The model uses 50,000 simulations of daily stock price paths using geometric Brownian motion and incorporates in a unified way all conversion, exercise and contingency conditions. Because of the significant assumptions involved in the valuation process, not all of which were based on observable data, the valuation is considered to be Level 3.

(3) The \$103 million of nonperforming assets sold were transferred at United's carrying value which had been written down to appraised value. Because the appraisals were based on sales of similar assets (observable data), the valuation is considered to be Level 2.

(4)

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The \$82.5 million of notes receivable were recorded at their estimated fair value of \$77.9 million, net of a \$4.5 million interest discount, which was determined based on discounted expected cash flows over the term at a rate commensurate with the credit risk inherent in the notes. The contractual rate on the notes is fixed at 3.5% for five years. The discount rate used for purposes of determining the fair value of the notes was 5.48% based on the terms, structure and risk profile of the notes. Note prepayments were estimated based on the expected marketing times for the underlying collateral since the notes require that principal be reduced as the underlying assets are sold. The valuation is considered Level 3 due to estimated prepayments which have a significant impact on the value and are not based on observable data.

Table 1 Financial Highlights**Selected Financial Information**

	September 30, 2011 (As restated) Second Quarter	September 30, (As restated) First Quarter	September 30, (As restated) Fourth Quarter	September 30, 2010 Third Quarter	September 30, Second Quarter	September 30, Second Quarter 2011-2010 Change	September 30, For the Six Months Ended (As restated) 2011	September 30, 2010
Y	\$ 76,931	\$ 75,965	\$ 81,215	\$ 84,360	\$ 87,699		\$ 152,896	\$ 177,548
	17,985	19,573	21,083	24,346	26,072		37,558	54,642
	58,946	56,392	60,132	60,014	61,627	(4)%	115,338	122,906
loan	11,000	190,000	47,750	50,500	61,500		201,000	136,500
	13,905	11,838	12,442	12,861	11,579	20	25,743	23,245
ue	61,851	(121,770)	24,824	22,375	11,706		(59,919)	9,651
	48,728	115,271	64,918	64,906	58,308	(16)	163,999	113,128
					45,349			45,349
) from efore	13,123	(237,041)	(40,094)	(42,531)	(91,951)		(223,918)	(148,826)
	1,095	295	144,760	(16,706)	(32,419)		1,390	(54,836)
(loss) itions	12,028	(237,336)	(184,854)	(25,825)	(59,532)		(225,308)	(93,990)
				(210,590)				
loss			11,750					
he tax diary,								(101)
								1,266
	12,028	(237,336)	(173,104)	(236,415)	(59,532)		(225,308)	(92,825)
	3,016	2,778	2,586	2,581	2,577		5,794	5,149
able s	\$ 9,012	\$ (240,114)	\$ (175,690)	\$ (238,996)	\$ (62,109)		\$ (231,102)	\$ (97,974)
ne	\$.16	\$ (13.00)	\$ (9.87)	\$ (1.50)	\$ (3.29)		\$ (10.52)	\$ (5.25)

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from	.16	(13.00)	(9.25)	(12.62)	(3.29)		(10.52)	(5.25)
	.16	(13.00)	(9.25)	(12.62)	(3.29)		(10.52)	(5.19)
	7.11	2.20	15.40	25.70	38.55	(82)	7.11	38.55
	6.94	1.69	14.80	25.26	26.96	(74)	6.94	26.96
:								
	42.60%	(526.54)%	(196.10)%	(148.04)%	(35.89)%		(345.86)%	(27.87)
	.66	(13.04)	(9.47)	(12.47)	(3.10)		(6.16)	(2.39)
	3.41	3.30	3.58	3.57	3.60		3.36	3.55
ratio								
ions								
	66.88	169.08	89.45	89.38	141.60		116.28	108.48
	8.06	6.15	7.80	11.37	11.84		7.11	11.87
ts ⁽⁵⁾	7.93	6.01	7.64	9.19	9.26		7.00	9.32
y to								
	1.37	2.70	5.22	6.78	6.91		2.05	7.02
y to								
	8.69	0.75	5.64	9.60	9.97		8.69	9.97
	\$ 71,065	\$ 83,769	\$ 179,094	\$ 217,766	\$ 224,335		\$ 71,065	\$ 224,335
	47,584	54,378	142,208	129,964	123,910		47,584	123,910
assets								
	118,649	138,147	321,302	347,730	348,245		118,649	348,245
es	127,638	133,121	174,695	174,613	174,111		127,638	174,111
ffs ⁽¹⁾	16,483	231,574	47,668	49,998	61,323		248,057	117,991
es to								
	3.07%	3.17%	3.79%	3.67%	3.57%		3.07%	3.57%
ffs to								
	1.58	20.71	4.03	4.12	4.98		11.46	4.75
closed								
	2.82	3.25	6.77	7.11	6.97		2.82	6.97
	1.66	1.79	4.42	4.96	4.55		1.66	4.55
ES (\$								
	\$ 4,266	\$ 4,599	\$ 4,768	\$ 4,896	\$ 5,011	(15)	\$ 4,432	\$ 5,091
	2,074	1,625	1,354	1,411	1,532	35	1,851	1,525
	6,924	6,902	6,680	6,676	6,854	1	6,913	6,969
	7,363	7,379	7,254	7,522	7,704	(4)	7,371	7,825
	6,372	6,560	6,294	6,257	6,375		6,465	6,472
	594	454	566	855	912	(35)	524	929
	25,427	18,466	18,984	18,936	18,905		21,965	18,891
d								
	57,543	18,466	18,984	18,936	18,905		21,965	18,891
n								
	\$ 4,163	\$ 4,194	\$ 4,604	\$ 4,760	\$ 4,873	(15)	\$ 4,163	\$ 4,873
	2,188	1,884	1,490	1,310	1,488	47	2,188	1,488
	7,152	7,709	7,276	7,013	7,652	(7)	7,152	7,652
	6,183	6,598	6,469	5,999	6,330	(2)	6,183	6,330
	603	586	469	662	904	(33)	603	904
nding								
	57,469	20,903	18,937	18,887	18,856		57,469	18,856

(1) Excludes the partial reversal of a previously established provision for fraud-related loan losses of \$11.8 million in the fourth quarter of 2010. Operating charge-offs also exclude the \$11.8 million related partial recovery of the previously charged off amount. (2) Excludes revenue generated by discontinued operations in the first quarter of 2010. (3) Excludes the goodwill impairment charge of \$211 million in the third quarter of 2010 and expenses relating to

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discontinued operations in the first quarter of 2010. (4) Net loss available to common shareholders, which is net of preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss). (5) Excludes effect of acquisition related intangibles and associated amortization. (6) Annualized.

* Excludes loans and foreclosed properties covered by loss sharing agreements with the FDIC.

Table 1 Continued Operating Earnings to GAAP Earnings Reconciliation**Selected Financial Information**

(in thousands, except per share data; taxable equivalent)	September 30, 2011 (As restated)	September 30, 2011 (As restated)	September 30, (As restated)	September 30, 2010	September 30, 2010	September 30, 2010	September 30, 2010	September 30, 2010
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	For the Six Months Ended (As restated) 2011		September 30, 2010
Interest revenue reconciliation								
Interest revenue taxable equivalent	\$ 76,931	\$ 75,965	\$ 81,215	\$ 84,360	\$ 87,699	\$ 152,896	\$ 177,548	\$ 177,548
Taxable equivalent adjustment	(429)	(435)	(497)	(511)	(500)	(864)	(993)	(993)
Interest revenue (GAAP)	\$ 76,502	\$ 75,530	\$ 80,718	\$ 83,849	\$ 87,199	\$ 152,032	\$ 176,555	\$ 176,555
Net interest revenue reconciliation								
Net interest revenue taxable equivalent	\$ 58,946	\$ 56,392	\$ 60,132	\$ 60,014	\$ 61,627	\$ 115,338	\$ 122,906	\$ 122,906
Taxable equivalent adjustment	(429)	(435)	(497)	(511)	(500)	(864)	(993)	(993)
Net interest revenue (GAAP)	\$ 58,517	\$ 55,957	\$ 59,635	\$ 59,503	\$ 61,127	\$ 114,474	\$ 121,913	\$ 121,913
Provision for loan losses reconciliation								
Operating provision for loan losses	\$ 11,000	\$ 190,000	\$ 47,750	\$ 50,500	\$ 61,500	\$ 201,000	\$ 136,500	\$ 136,500
Partial reversal of special fraud-related provision for loan loss			(11,750)					
Provision for loan losses (GAAP)	\$ 11,000	\$ 190,000	\$ 36,000	\$ 50,500	\$ 61,500	\$ 201,000	\$ 136,500	\$ 136,500
Total revenue reconciliation								
Total operating revenue	\$ 61,851	\$ (121,770)	\$ 24,824	\$ 22,375	\$ 11,706	\$ (59,919)	\$ 9,651	\$ 9,651
Taxable equivalent adjustment	(429)	(435)	(497)	(511)	(500)	(864)	(993)	(993)
Partial reversal of special fraud-related provision for loan loss			11,750					
Total revenue (GAAP)	\$ 61,422	\$ (122,205)	\$ 36,077	\$ 21,864	\$ 11,206	\$ (60,783)	\$ 8,658	\$ 8,658
Expense reconciliation								
Operating expense	\$ 48,728	\$ 115,271	\$ 64,918	\$ 64,906	\$ 103,657	\$ 163,999	\$ 158,477	\$ 158,477
Noncash goodwill impairment charge				210,590				
Operating expense (GAAP)	\$ 48,728	\$ 115,271	\$ 64,918	\$ 275,496	\$ 103,657	\$ 163,999	\$ 158,477	\$ 158,477
Income (loss) from continuing operations								

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before taxes														
reconciliation														
Operating income (loss) from continuing operations before taxes	\$	13,123	\$	(237,041)	\$	(40,094)	\$	(42,531)	\$	(91,951)	\$	(223,918)	\$	(148,826)
Taxable equivalent adjustment		(429)		(435)		(497)		(511)		(500)		(864)		(993)
Noncash goodwill impairment charge								(210,590)						
Partial reversal of special fraud-related provision for loan loss						11,750								
Income (loss) from continuing operations before taxes (GAAP)	\$	12,694	\$	(237,476)	\$	(28,841)	\$	(253,632)	\$	(92,451)	\$	(224,782)	\$	(149,819)
Income tax expense (benefit) reconciliation														
Operating income tax expense (benefit)	\$	1,095	\$	295	\$	144,760	\$	(16,706)	\$	(32,419)	\$	1,390	\$	(54,836)
Taxable equivalent adjustment		(429)		(435)		(497)		(511)		(500)		(864)		(993)
Income tax expense (benefit) (GAAP)	\$	666	\$	(140)	\$	144,263	\$	(17,217)	\$	(32,919)	\$	526	\$	(55,829)
Diluted earnings (loss) from continuing operations per common share reconciliation														
Diluted operating earnings (loss) from continuing operations per common share	\$	.16	\$	(13.00)	\$	(9.87)	\$	(1.50)	\$	(3.29)	\$	(10.52)	\$	(5.25)
Noncash goodwill impairment charge								(11.12)						
Partial reversal of special fraud-related provision for loan loss						.62								
Diluted earnings (loss) from continuing operations per common share (GAAP)	\$	.16	\$	(13.00)	\$	(9.25)	\$	(12.62)	\$	(3.29)	\$	(10.52)	\$	(5.25)
Book value per common share reconciliation														
Tangible book value per common share	\$	6.94	\$	1.69	\$	14.80	\$	25.26	\$	26.96	\$	6.94	\$	26.96
Effect of goodwill and other intangibles		.17		.51		.60		.44		11.59		.17		11.59
Book value per common share (GAAP)	\$	7.11	\$	2.20	\$	15.40	\$	25.70	\$	38.55	\$	7.11	\$	38.55
Efficiency ratio from continuing operations reconciliation														
Operating efficiency ratio from continuing operations		66.88%		169.08%		89.45%		89.38%		141.60%		116.28%		108.48%
Noncash goodwill impairment charge								290.00						
Efficiency ratio from continuing operations (GAAP)		66.88%		169.08%		89.45%		379.38%		141.60%		116.28%		108.48%

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Average equity to assets reconciliation							
Tangible common equity to assets	1.37%	2.70%	5.22%	6.78%	6.91	2.05%	7.02%
Effect of preferred equity	6.56	3.31	2.42	2.41	2.35	4.95	2.30
Tangible equity to assets	7.93	6.01	7.64	9.19	9.26	7.00	9.32
Effect of goodwill and other intangibles	.13	.14	.16	2.18	2.58	.11	2.55
Equity to assets (GAAP)	8.06%	6.15%	7.80%	11.37%	11.84%	7.11%	11.87%
Actual tangible common equity to risk-weighted assets reconciliation							
Tangible common equity to risk-weighted assets	8.69%	.75%	5.64%	9.60%	9.97%	8.69%	9.97%
Effect of other comprehensive income	(.42)	(.32)	(.42)	(.81)	(.87)	(.42)	(.87)
Effect of deferred tax limitation				(2.94)	(2.47)		(2.47)
Effect of trust preferred	1.15	1.13	1.06	1.06	1.03	1.15	1.03
Effect of preferred equity	4.20	5.87	3.53	3.51	3.41	4.20	3.41
Tier I capital ratio (Regulatory)	13.62%	7.43%	9.81%	10.42%	11.07%	13.62%	11.07%
Net charge-offs reconciliation							
Operating net charge-offs	\$ 16,483	\$ 231,574	\$ 47,668	\$ 49,998	\$ 61,323	\$ 248,057	\$ 117,991
Subsequent partial recovery of fraud-related charge-off			(11,750)				
Net charge-offs (GAAP)	\$ 16,483	\$ 231,574	\$ 35,918	\$ 49,998	\$ 61,323	\$ 248,057	\$ 117,991
Net charge-offs to average loans reconciliation							
Operating net charge-offs to average loans	1.58%	20.71%	4.03%	4.12%	4.98%	11.46%	4.75%
Subsequent partial recovery of fraud-related charge-off			(1.00)				
Net charge-offs to average loans (GAAP)	1.58%	20.71%	3.03%	4.12%	4.98%	11.46%	4.75%

Results of Operations

United reported net operating income from continuing operations of \$12.0 million for the second quarter of 2011. This compared to a net operating loss from continuing operations of \$59.5 million for the same period in 2010, which included an after-tax loss of \$30.0 million resulting from the sale of nonperforming assets to a private equity firm. For the second quarter of 2011, diluted operating income from continuing operations per share was \$.16. This compared to diluted operating loss from continuing operations per share of \$3.29 for the second quarter of 2010, which included \$1.59 in loss per share related to the sale of nonperforming assets. For the six months ended June 30, 2011, United reported a net operating loss from continuing operations of \$225 million compared to a net operating loss from continuing operations of \$94.0 million for the same period in 2010. The operating loss for the six months ended June 30, 2011 reflects the Board of Director's decision in the first quarter to adopt the Problem Asset Disposition Plan to quickly dispose of problem assets following United's successful Private Placement at the end of the first quarter.

Net Interest Revenue (Taxable Equivalent)

Net interest revenue (the difference between the interest earned on assets and the interest paid on deposits and borrowed funds) is the single largest component of total revenue. United actively manages this revenue source to provide optimal levels of revenue while balancing interest rate, credit and liquidity risks. Taxable equivalent net interest revenue for the three months ended June 30, 2011 was \$58.9 million, down \$2.68 million, or 4%, from the second quarter of 2010. The decrease in net interest revenue for the second quarter of 2011 compared to the second quarter of 2010 was mostly due to lower average loan balances. United continues its intense focus on loan and deposit pricing, in an effort to maintain a steady level of net interest revenue.

Average loans decreased \$745 million, or 15%, from the second quarter of last year. The decrease in the loan portfolio was a result of the weak economy as well as the Bulk Loan Sale completed in April 2011. Loan charge-offs, foreclosure activity and management's efforts to rebalance the loan portfolio by reducing the concentration of residential construction loans have all contributed to declining loan balances. While loan balances have declined, United continues to make new loans. During the second quarter of 2011, United funded \$105 million in new loans, primarily commercial and small business loans in north Georgia, the Atlanta MSA and coastal Georgia.

Average interest-earning assets for the second quarter of 2011 increased \$69.3 million, or 1%, from the same period in 2010. The decrease of \$745 million in average loans was offset by increases of \$542 million in the investment securities portfolio and \$272 million in other interest-earning assets which is mostly made up of short-term commercial paper. Loan demand has been weak due to the poor economy and management's efforts to reduce United's exposure to residential construction loans. The increase in the securities portfolio and other interest-earning assets was due to purchases of floating rate mortgage-backed securities and short-term commercial paper in an effort to temporarily invest excess liquidity, including the proceeds from the new capital raised at the end of the first quarter of 2011. Average interest-bearing liabilities decreased \$183 million, or 3%, from the second quarter of 2010 due to the rolling off of higher-cost brokered deposits and certificates of deposit as funding needs decreased. The average yield on interest earning assets for the three months ended June, 2011, was 4.45%, down 68 basis points from 5.13% for the same period of 2010. A significant contributing factor to the decrease in the yield on interest earning assets was due to the build-up of excess liquidity resulting in a shift in earning asset mix from loans, which generally yield a higher rate than other asset classes, to temporary investments which have relatively low yields. The change in mix more than offset an 8 basis point increase in the average loan yield from the second quarter of 2010. In light of the weak economic environment, United maintained above normal levels of liquidity by entering into brokered deposit arrangements and temporarily investing the proceeds in short-term commercial paper and floating rate mortgage-backed securities at a slightly negative spread. Following the first quarter capital transaction, management has sought to reduce liquidity levels and will continue to do so.

The average cost of interest-bearing liabilities for the second quarter of 2011 was 1.24% compared to 1.75% for the same period of 2010, reflecting the effect of falling rates on United's floating rate liabilities and United's ability to reduce deposit pricing. Also contributing to the overall lower rate on interest-bearing liabilities was a shift in the mix of deposits away from more expensive time deposits toward lower-rate transaction deposits. United's shrinking balance sheet also permitted the reduction of more expensive wholesale borrowings.

The banking industry uses two ratios to measure relative profitability of net interest revenue. The net interest spread measures the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities. The interest rate spread eliminates the effect of non-interest-bearing deposits and gives a direct perspective on the effect of market interest rate movements. The net interest margin is an indication of the profitability of a company's investments, and is defined as net interest revenue as a percent of average total interest-earning assets, which includes the positive effect of funding a portion of interest-earning assets with customers' non-interest bearing deposits and stockholders' equity.

For the three months ended June 30, 2011 and 2010, the net interest spread was 3.21% and 3.38%, respectively, while the net interest margin was 3.41% and 3.60%, respectively. The reduction in average loan balances and build-up of excess liquidity negatively impacted the margin.

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For the first six months of 2011, net interest revenue was \$115 million, a decrease of \$7.57 million, or 6%, from the first six months of 2010. Average earning assets decreased \$56.3 million, or 1%, during the first six months of 2011 compared to the same period a year earlier. The yield on earning assets decreased 68 basis points from 5.13% for the six months ended June 30, 2010 to 4.45% for the six months ended June 30, 2011 due to declining average loan balances, an increase in excess liquidity invested in short-term low rate assets, and interest reversals on performing loans classified as held for sale as part of the Bulk Loan Sale. The transfer reduced net interest margin by 6 basis points in the first six months of 2011. The cost of interest bearing liabilities over the same period decreased 53 basis points. The combined effect of the lower yield on interest-earning assets, partially offset by the lower cost of interest-bearing liabilities resulted in the net interest margin decreasing 19 basis points from the six months ended June 30, 2010 to the six months ended June 30, 2011.

The following table shows the relationship between interest revenue and expense, and the average amounts of interest-earning assets and interest-bearing liabilities for the three months ended June 30, 2011 and 2010.

Table 2 Average Consolidated Balance Sheets and Net Interest Analysis

For the Three Months Ended June 30,

	September 30, (As restated) Average Balance	September 30, 2011 Interest	September 30, Avg. Rate	September 30, Average Balance	September 30, 2010 Interest	September 30, Avg. Rate
(dollars in thousands, taxable equivalent)						
Assets:						
Interest-earning assets:						
Loans, net of unearned income ⁽¹⁾⁽²⁾	\$ 4,266,211	\$ 60,958	5.73%	\$ 5,010,937	\$ 70,640	5.65%
Taxable securities ⁽³⁾	2,048,683	14,541	2.84	1,503,162	15,534	4.13
Tax-exempt securities ⁽¹⁾⁽³⁾	25,044	411	6.56	28,920	482	6.67
Federal funds sold and other interest-earning assets	583,832	1,021	.70	311,475	1,043	1.34
Total interest-earning assets	6,923,770	76,931	4.45	6,854,494	87,699	5.13
Non-interest-earning assets:						
Allowance for loan losses	(139,744)			(193,998)		
Cash and due from banks	119,801			100,931		
Premises and equipment	178,949			181,064		
Other assets ⁽³⁾	280,204			761,803		
Total assets	\$ 7,362,980			\$ 7,704,294		
Liabilities and Shareholders Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	\$ 1,310,441	1,036	.32	\$ 1,325,099	1,745	.53
Money market	979,432	1,499	.61	746,039	1,829	.98
Savings	195,946	64	.13	186,628	83	.18
Time less than \$100,000	1,541,909	4,990	1.30	1,605,308	7,887	1.97
Time greater than \$100,000	988,810	3,873	1.57	1,110,010	6,102	2.20
Brokered	473,161	2,132	1.81	642,954	3,729	2.33
Total interest-bearing deposits	5,489,699	13,594	.99	5,616,038	21,375	1.53
Federal funds purchased and other borrowings	103,156	1,074	4.18	104,637	1,056	4.05
Federal Home Loan Bank advances	52,735	570	4.34	107,948	974	3.62
Long-term debt	150,178	2,747	7.34	150,097	2,667	7.13
Total borrowed funds	306,069	4,391	5.75	362,682	4,697	5.19

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Total interest-bearing liabilities	5,795,768	17,985	1.24	5,978,720	26,072	1.75
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	882,151			758,558		
Other liabilities	91,353			54,931		
Total liabilities	6,769,272			6,792,209		
Shareholders equity	593,708			912,085		
Total liabilities and shareholders equity	\$ 7,362,980			\$ 7,704,294		
Net interest revenue		\$ 58,946			\$ 61,627	
Net interest-rate spread			3.21%			3.38%
Net interest margin ⁽⁴⁾			3.41%			3.60%

- (1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.
- (2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued and loans that are held for sale.
- (3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of \$32.2 million in 2011 and \$43.6 million in 2010 are included in other assets for purposes of this presentation.
- (4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

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The following table shows the relationship between interest revenue and expense, and the average amounts of interest-earning assets and interest-bearing liabilities for the six months ended June 30, 2011 and 2010.

Table 3 Average Consolidated Balance Sheets and Net Interest Analysis

For the Six Months Ended June 30,

(dollars in thousands, taxable equivalent)	September 30, (As restated) Average Balance	September 30, 2011 Interest	September 30, Avg. Rate	September 30, Average Balance	September 30, 2010 Interest	September 30, Avg. Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income ⁽¹⁾⁽²⁾	\$ 4,431,617	\$ 122,028	5.55%	\$ 5,091,445	\$ 142,859	5.66%
Taxable securities ⁽³⁾	1,825,322	27,886	3.06	1,495,447	31,426	4.20
Tax-exempt securities ⁽¹⁾⁽³⁾	25,434	835	6.57	29,482	991	6.72
Federal funds sold and other interest-earning assets	630,384	2,147	.68	352,683	2,272	1.29
Total interest-earning assets	6,912,757	152,896	4.45	6,969,057	177,548	5.13
Non-interest-earning assets:						
Allowance for loan losses	(154,347)			(190,662)		
Cash and due from banks	127,031			102,728		
Premises and equipment	179,150			181,493		
Other assets ⁽³⁾	306,495			762,014		
Total assets	\$ 7,371,086			\$ 7,824,630		
Liabilities and Shareholders Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	\$ 1,341,618	2,360	.35	\$ 1,343,297	3,599	.54
Money market	954,128	3,527	.75	734,817	3,586	.98
Savings	191,708	141	.15	183,555	167	.18
Time less than \$100,000	1,541,130	10,441	1.37	1,648,739	16,778	2.05
Time greater than \$100,000	989,840	8,024	1.63	1,132,767	12,872	2.29
Brokered	585,103	4,262	1.47	689,717	8,266	2.42
Total interest-bearing deposits	5,603,527	28,755	1.03	5,732,892	45,268	1.59
Federal funds purchased and other borrowings	102,132	2,116	4.18	103,355	2,094	4.09
Federal Home Loan Bank advances	53,923	1,160	4.34	111,150	1,951	3.54
Long-term debt	150,169	5,527	7.42	150,088	5,329	7.16
Total borrowed funds	306,224	8,803	5.80	364,593	9,374	5.18
Total interest-bearing liabilities	5,909,751	37,558	1.28	6,097,485	54,642	1.81
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	861,864			738,876		
Other liabilities	75,083			59,605		
Total liabilities	6,846,698			6,895,966		
Shareholders equity	524,388			928,664		

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Total liabilities and shareholders equity \$ 7,371,086 \$ 7,824,630

Net interest revenue \$ 115,338 \$ 122,906

Net interest-rate spread 3.17% 3.32%

Net interest margin ⁽⁴⁾ 3.36% 3.55%

- (1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.
- (2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued and loans that are held for sale.
- (3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of \$29.7 million in 2011 and \$43.4 million in 2010 are included in other assets for purposes of this presentation.
- (4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

The following table shows the relative effect on net interest revenue for changes in the average outstanding amounts (volume) of interest-earning assets and interest-bearing liabilities and the rates earned and paid on such assets and liabilities (rate). Variances resulting from a combination of changes in rate and volume are allocated in proportion to the absolute dollar amounts of the change in each category.

Table 4 Change in Interest Revenue and Expense on a Taxable Equivalent Basis*(in thousands)*

	September 30, Three Months Ended June 30, 2011 Compared to 2010 Increase (decrease) Due to Changes in			September 30, Six Months Ended June 30, 2011 Compared to 2010 Increase (decrease) Due to Changes in		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Loans	\$ (10,629)	\$ 947	\$ (9,682)	\$ (18,212)	\$ (2,619)	\$ (20,831)
Taxable securities	4,690	(5,683)	(993)	6,086	(9,626)	(3,540)
Tax-exempt securities	(64)	(7)	(71)	(133)	(23)	(156)
Federal funds sold and other interest-earning assets	630	(652)	(22)	1,262	(1,387)	(125)
Total interest-earning assets	(5,373)	(5,395)	(10,768)	(10,997)	(13,655)	(24,652)
Interest-bearing liabilities:						
NOW accounts	(19)	(690)	(709)	(4)	(1,235)	(1,239)
Money market accounts	474	(804)	(330)	927	(986)	(59)
Savings deposits	4	(23)	(19)	7	(33)	(26)
Time deposits less than \$100,000	(300)	(2,597)	(2,897)	(1,035)	(5,302)	(6,337)
Time deposits greater than \$100,000	(613)	(1,616)	(2,229)	(1,482)	(3,366)	(4,848)
Brokered deposits	(866)	(731)	(1,597)	(1,117)	(2,887)	(4,004)
Total interest-bearing deposits	(1,320)	(6,461)	(7,781)	(2,704)	(13,809)	(16,513)
Federal funds purchased & other borrowings	(15)	33	18	(25)	47	22
Federal Home Loan Bank advances	(569)	165	(404)	(1,162)	371	(791)
Long-term debt	1	79	80	3	195	198
Total borrowed funds	(583)	277	(306)	(1,184)	613	(571)
Total interest-bearing liabilities	(1,903)	(6,184)	(8,087)	(3,888)	(13,196)	(17,084)
Increase in net interest revenue	\$ (3,470)	\$ 789	\$ (2,681)	\$ (7,109)	\$ (459)	\$ (7,568)

Provision for Loan Losses

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The provision for loan losses is based on management's evaluation of losses inherent in the loan portfolio and corresponding analysis of the allowance for loan losses at quarter-end. The provision for loan losses was \$11.0 million and \$201 million for the second quarter and the first six months of 2011, respectively, compared to \$61.5 million and \$137 million for the same period in 2010. The amount of provision recorded in the second quarter was the amount required such that the total allowance for loan losses reflected the appropriate balance, in the estimation of management, and was sufficient to cover inherent losses in the loan portfolio. For the six months ended June 30, 2011, the increase in the provision for loan losses compared to a year ago was primarily due to the increased level of charge-offs in the first quarter of 2011 recorded in conjunction with the Problem Asset Disposition Plan and transfer of loans to the held for sale category in anticipation of the Bulk Loan Sale. This also had the impact of lowering the second quarter provision for loan losses due to the lower level of nonperforming loans and net charge-offs. For the three and six months ended June 30, 2011, net loan charge-offs as an annualized percentage of average outstanding loans were 1.58% and 11.46%, compared to 4.98% and 4.75%, respectively, for the same periods in 2010. When charge-offs specifically related to loans transferred to the held for sale classification are excluded, the charge-off rate for the first six months of 2011 was 3.20%.

As the residential construction and housing markets have struggled, it has been difficult for many builders and developers to obtain cash flow from selling lots and houses needed to service debt. This deterioration of the residential construction and housing market was the primary factor that resulted in higher credit losses and increases in non-performing assets over the last three years. Although a majority of the charge-offs have been within the residential construction and development portion of the portfolio, credit quality deterioration has migrated to other loan categories as unemployment levels have remained high throughout United States markets. Additional discussion on credit quality and the allowance for loan losses is included in the Asset Quality and Risk Elements section of this report on page 46.

Fee Revenue

Operating fee revenue for the three and six months ended June 30, 2011 was \$13.9 million and \$25.7 million, respectively, an increase of \$2.33 million, or 20%, and \$2.50 million, or 11%, from the same period of 2010. Fee revenue from continuing operations excludes consulting fees earned by United's Brintech subsidiary which was sold on March 31, 2010. All periods are presented on a continuing operations basis.

The following table presents the components of fee revenue for the second quarters and first six months of 2011 and 2010.

Table 5 Fee Revenue

(dollars in thousands)

	September 30, Three Months Ended June 30,			September 30, Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Overdraft fees	\$ 3,657	\$ 4,652	(21)%	\$ 7,168	\$ 8,969	(20)%
ATM and debit card fees	3,279	2,595	26	5,809	4,948	17
Other service charges and fees	672	746	(10)	1,351	1,523	(11)
Service charges and fees	7,608	7,993	(5)	14,328	15,440	(7)
Mortgage loan and related fees	952	1,601	(41)	2,446	3,080	(21)
Brokerage fees	691	586	18	1,368	1,153	19
Securities gains, net	783			838	61	
Losses from prepayment of borrowings	(791)			(791)		
Hedge ineffectiveness	2,809	239		4,112	850	
Other	1,853	1,160	60	3,442	2,661	29
Total fee revenue	\$ 13,905	\$ 11,579	20	\$ 25,743	\$ 23,245	11

Service charges and fees of \$7.61 million were down \$385,000, or 5%, from the second quarter of 2010. For the first six months of 2011, service charges and fees of \$14.3 million were down \$1.11 million, or 7%, from the same period in 2010. The decrease was primarily due to lower overdraft fees resulting from decreased utilization of our courtesy overdraft services with the changes to Regulation E in 2010 requiring customers to opt in to such services. The decrease in overdraft fees was partially offset by higher ATM and debit card interchange revenue.

Mortgage loans and related fees for the second quarter and first six months of 2011 were down \$649,000, or 41%, and \$634,000, or 21%, respectively, from the same period in 2010. In the second quarter of 2011, United closed 349 loans totaling \$50.5 million compared with 475 loans totaling \$70.2 million in the second quarter of 2010. Year-to-date mortgage production in 2011 amounted to 830 loans totaling \$125 million, compared to 887 loans totaling \$135 million for the same period in 2010.

United recognized net securities gains of \$783,000 and \$838,000, respectively, for the three and six months ended June 30, 2011. There were no securities gains or losses in the second quarter of 2010 and \$61,000 for the first six months of 2010. The 2010 net gain included \$950,000 in impairment charges on trust preferred securities of a bank whose financial condition had deteriorated. The impairment charge was more than offset by realized gains from securities sales.

In the second quarter of 2011, United recognized \$2.81 million in income from hedge ineffectiveness compared with \$239,000 in income from hedge ineffectiveness in the second quarter of 2010. For the first six months of 2011, United recognized \$4.11 million in income from hedge ineffectiveness compared with \$850,000 in income for the same period of 2010. Most of the hedge ineffectiveness in 2010 and all of the hedge ineffectiveness in 2011 relates to terminated cash flow hedges where the gains realized on the terminated positions are being deferred over the

original term of the derivative instrument. The ineffectiveness, which is caused by a decrease in qualifying prime-based loans, results in the accelerated recognition of the deferred gains.

Operating Expenses

The following table presents the components of operating expenses for the three and six months ended June 30, 2011 and 2010. The table is presented to reflect Brintech as a discontinued operation, and accordingly, operating expenses associated with Brintech have been excluded from the table for all periods presented.

Table 6 Operating Expenses

(dollars in thousands)

	September 30, Three Months Ended June 30,			September 30, Change	September 30, Six Months Ended June 30,			September 30, Change
	2011	2010			2011	2010		
Salaries and employee benefits	\$ 26,436	\$ 23,590	12%	\$ 51,360	\$ 47,950	7%		
Communications and equipment	3,378	3,511	(4)	6,722	6,784	(1)		
Occupancy	3,805	3,836	(1)	7,879	7,650	3		
Advertising and public relations	1,317	1,352	(3)	2,295	2,395	(4)		
Postage, printing and supplies	1,085	765	42	2,203	1,990	11		
Professional fees	2,350	2,178	8	5,680	4,121	38		
FDIC assessments and other regulatory charges	3,644	3,566	2	9,057	7,192	26		
Amortization of intangibles	760	794	(4)	1,522	1,596	(5)		
Other	4,062	4,176	(3)	10,491	8,097	30		
Total excluding foreclosed property expenses and loss on NPA sale	46,837	43,768	7	97,209	87,775	11		
Net (gains) losses on sales of foreclosed properties	(3,218)	5,098		8,802	8,616			
Foreclosed property write downs	3,118	6,094		51,703	10,673			
Foreclosed property maintenance expenses	1,991	3,348	(41)	6,285	6,064	4		
Loss on sale of nonperforming assets		45,349			45,349			
Total operating expenses	\$ 48,728	\$ 103,657	(53)	\$ 163,999	\$ 158,477	3		

Operating expenses for the second quarter of 2011 totaled \$48.7 million, down \$54.9 million, or 53%, from the second quarter of 2010. For the six months ended June 30, 2011, operating expenses totaled \$164 million, up \$5.52 million, or 3% from the same period in 2010, mostly reflecting an increase in foreclosed property losses incurred in connection with United's classified asset disposition plans. Excluding foreclosed property costs and the loss on sale of nonperforming assets in the second quarter of 2010, total operating expenses were \$46.8 million, and \$97.2 million for the three and six months ended June 30, 2011, up \$3.07 million, or 7%, and \$9.43 million, or 11%, respectively, from a year ago.

Salaries and employee benefits for the second quarter of 2011 were \$26.4 million, up \$2.85 million, or 12%, from the same period of 2010. For the first six months of 2011, salaries and employee benefits of \$51.4 million were up \$3.41 million, or 7%, from the first six months of 2010. Severance costs for eliminated staff positions accounted for \$1.20 million of the increase in both periods. The increase was also due to higher

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group medical insurance costs and a lower level of deferred direct loan origination costs. Headcount totaled 1,767 at June 30, 2011, compared to 1,821 at June 30, 2010.

Occupancy expense of \$3.81 million and \$7.88 million, respectively, for the second quarter and first six months of 2011 was down \$31,000, or 1%, and up \$229,000, or 3%, respectively, compared to the same periods of 2010. The increase for the six month period was due to higher costs for utilities, real estate taxes and insurance premiums.

Postage, printing and supplies expense for the second quarter of 2011 totaled \$1.09 million, up \$320,000, or 42%, from the same period of 2010. For the six months ended June 30, 2011 and 2010, postage, printing and supplies expense totaled \$2.20 million and \$1.99 million, respectively. The increase was primarily due to higher postage costs and outside courier expenses.

Professional fees for the second quarter of 2011 of \$2.35 million were up \$172,000, or 8%, from the same period in 2010. For the six months ended June 30, 2011 professional fees of \$5.68 million were up \$1.56 million, or 38%, primarily due to professional service costs associated with the Private Placement and Bulk Loan Sale.

FDIC assessments and other regulatory charges of \$3.64 million and \$9.06 million for the second quarter and first six months of 2011, increased \$78,000 and \$1.87 million, respectively, from the second quarter and first six months of 2010. The increase was due to an increase in United s assessment rate as well as an increase in insured deposits. The assessment rate came down late in the second quarter of 2011, primarily due to the FDIC s new asset based formula.

Other expense of \$4.06 million for the second quarter of 2011 decreased \$114,000 from the second quarter of 2010. Year-to-date, other expense of \$10.5 million increased \$2.39 million from the first six months of 2010. The year-to-date increase was primarily due to \$2.60 million of property taxes and other loan collateral costs incurred to prepare loans for the Bulk Loan Sale.

Gains on sale of foreclosed property totaled \$3.22 million for the second quarter of 2011, compared to losses on sale of \$5.10 million for the second quarter of 2010. For the six months ended June 30, 2011, losses on sale were \$8.80 million compared to losses on sale of \$8.37 million for the same period of the prior year. Foreclosed property write downs for the second quarter and first six months of 2011 were \$3.12 million and \$51.7 million compared to \$6.09 million and \$10.9 million a year ago. The year to date increase reflected higher write downs in the first half of 2011 on foreclosed properties to expedite sales under the Problem Asset Disposition Plan. Foreclosed property maintenance expenses include legal fees, property taxes, marketing costs, utility services, maintenance and repair charges that totaled \$1.99 million and \$6.29 million for the second quarter and first six months of 2011 compared with \$3.35 million and \$6.06 million a year ago.

Income Taxes

Income tax expense for the second quarter of 2011 was \$666,000 as compared with income tax benefit of \$32.9 million for the second quarter of 2010, representing an effective tax rate of approximately 5.25% and 35.6%, respectively. For the first six months of 2011, income tax expense was \$526,000 as compared with income tax benefit of \$55.8 million for the same period in 2010. The effective tax rates were different from the statutory tax rates primarily due to interest revenue on certain investment securities and loans that are exempt from income taxes, tax exempt fee revenue, tax credits received on affordable housing investments, and the change in valuation allowance on deferred tax assets as discussed below.

United was profitable during the second quarter of 2011. The change from a pre-tax loss to pre-tax earnings will affect the effective tax rate going forward to the extent profitability continues. Because in aggregate, United's permanent tax differences are generally in United's favor, they tend to reduce the effective tax rate below the blended statutory rate of 38.9% when United has pre-tax earnings and they increase the effective tax rate above the blended statutory rate when United has a pre-tax loss. The effective tax rates can be volatile as earnings or losses approach a break-even point since United would report a tax benefit even if it were to break even as a result of the permanent tax differences. Therefore some volatility in the effective tax rate is expected as United moves from a loss position to positive earnings.

At June 30, 2011, United had net deferred tax assets with a balance of zero, net of the valuation allowance of \$263 million. Accounting Standards Codification Topic 740, *Income Taxes*, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a more likely than not standard. Management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results. In making such judgments, significant weight is given to evidence that can be objectively verified. Based on the weighting of the evidence, management has determined that the objective negative evidence represented by recent losses outweighs the more subjective positive evidence. As a result, management has established a full valuation allowance against its net deferred tax assets.

As of February 22, 2011, United adopted a tax benefits preservation plan designed to protect its ability to utilize its substantial tax assets. Those tax assets include net operating losses that it could utilize in certain circumstances to offset taxable income and reduce its federal income tax liability and the future tax benefits from potential net unrealized built in losses. United's ability to use its tax benefits would be substantially limited if it were to experience an ownership change as defined under Section 382. In general, an ownership change would occur if United's 5-percent shareholders, as defined under Section 382, collectively increase their ownership in United by more than 50% over a rolling three-year period. The tax benefits preservation plan is designed to reduce the likelihood that United will experience an ownership change by discouraging any person or group from becoming a beneficial owner of 4.99% or more of United's common stock then outstanding.

In connection with the tax benefits preservation plan, on February 22, 2011, United entered into a share exchange agreement with the Elm Ridge Parties to transfer to the Company 1,551,126 shares of United's common stock, in exchange for 16,613 shares of the Company's series D preferred shares and warrants to purchase 1,551,126 shares of common stock. Prior to entering into the share exchange agreement, collectively, the Elm Ridge Parties were United's largest shareholder. By exchanging the Elm Ridge Parties' common stock for the Series D Preferred Shares and warrants, United eliminated its only 5-percent shareholder and, as a result, obtained further protection against an ownership change under Section 382.

Additional information regarding income taxes can be found in Note 15 to the consolidated financial statements filed with United's 2010 Form 10-K.

Balance Sheet Review

Total assets at June 30, 2011, December 31, 2010 and June 30, 2010 were \$7.15 billion, \$7.28 billion and \$7.65 billion, respectively. Average total assets for the second quarter of 2011 were \$7.36 billion, down from \$7.70 billion in the second quarter of 2010.

Loans

The following table presents a summary of the loan portfolio.

Table 7 Loans Outstanding (excludes loans covered by loss share agreement)

(dollars in thousands)

	September 30, June 30, 2011	September 30, December 31, 2010	September 30, June 30, 2010
By Loan Type			
Commercial (secured by real estate)	\$ 1,741,754	\$ 1,761,424	\$ 1,780,142
Commercial construction	195,190	296,582	342,140
Commercial (commercial and industrial)	428,058	441,518	441,097
Total commercial	2,365,002	2,499,524	2,563,379
Residential construction	501,909	695,166	819,930
Residential mortgage	1,177,226	1,278,780	1,355,582
Installment	119,310	130,656	134,139
Total loans	\$ 4,163,447	\$ 4,604,126	\$ 4,873,030
As a percentage of total loans:			
Commercial (secured by real estate)	42%	38%	36%
Commercial construction	5	6	7
Commercial (commercial and industrial)	10	10	9
Total commercial	57	54	52
Residential construction	12	15	17
Residential mortgage	28	28	28
Installment	3	3	3
Total	100%	100%	100%
By Geographic Location			
Atlanta MSA	\$ 1,188,262	\$ 1,310,222	\$ 1,373,631
Gainesville MSA	274,744	312,049	343,351
North Georgia	1,499,687	1,688,586	1,807,704
Western North Carolina	626,230	701,798	737,639
Coastal Georgia	325,650	335,020	355,719
East Tennessee	248,874	256,451	254,986
Total loans	\$ 4,163,447	\$ 4,604,126	\$ 4,873,030

Substantially all of United's loans are to customers (including customers who have a seasonal residence in United's market areas) located in the immediate market areas of its community banks in Georgia, North Carolina, and Tennessee, and more than 85% of the loans are secured by real estate. At June 30, 2011, total loans, excluding loans acquired from SCB that are covered by loss sharing agreements with the FDIC, were \$4.16 billion, a decrease of \$710 million, or 15%, from June 30, 2010. The rate of loan growth began to decline in the first quarter of 2007 and the balances have continued to decline. The decrease in the loan portfolio began with deterioration in the residential construction and housing markets. This deterioration resulted in part in an oversupply of lot inventory, houses and land within United's markets, which further slowed construction activities and acquisition and development projects. The resulting recession that began in the housing market led to high rates of unemployment that resulted in stress in the other segments of United's loan portfolio. Despite the weak economy and lack of loan demand, United has continued to pursue lending opportunities which resulted in \$105 million in new loans that were funded in the second quarter of 2011.

Asset Quality and Risk Elements

United manages asset quality and controls credit risk through review and oversight of the loan portfolio as well as adherence to policies designed to promote sound underwriting and loan monitoring practices. United's credit administration function is responsible for monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures among all of the community banks. Additional information on the credit administration function is included in Item 1 under the heading *Loan Review and Non-performing Assets* in United's Annual Report on Form 10-K.

United classifies performing loans as substandard when there is a well-defined weakness or weaknesses that jeopardize the repayment by the borrower and there is a distinct possibility that United could sustain some loss if the deficiency is not corrected. The table below presents performing substandard loans for the last five quarters.

Table 8 Performing Substandard Loans*(dollars in thousands)*

	September 30, June 30, 2011	September 30, March 31, 2011	September 30, December 31, 2010	September 30, September 30, 2010	September 30, June 30, 2010
By Category					
Commercial (sec. by RE)	\$ 117,525	\$ 119,651	\$ 156,765	\$ 157,245	\$ 140,805
Commercial construction	31,347	34,887	90,745	102,592	78,436
Commercial & industrial	16,645	16,425	16,767	22,251	22,052
Total commercial	165,517	170,963	264,277	282,088	241,293
Residential construction	74,277	80,534	158,770	177,381	149,305
Residential mortgage	70,396	69,119	86,143	86,239	79,484
Installment	2,923	2,352	2,957	4,218	4,364
Total	\$ 313,113	\$ 322,968	\$ 512,147	\$ 549,926	\$ 474,446
By Market					
Atlanta MSA	\$ 97,931	\$ 100,200	\$ 185,327	\$ 214,676	\$ 183,612
Gainesville MSA	14,957	17,417	33,962	27,097	22,602
North Georgia	140,886	148,228	212,992	229,845	199,498
North Carolina	30,202	27,280	42,335	37,085	34,742
Coastal Georgia	22,945	23,104	29,223	32,341	25,329
East Tennessee	6,192	6,739	8,308	8,882	8,663
Total loans	\$ 313,113	\$ 322,968	\$ 512,147	\$ 549,926	\$ 474,446

At June 30, 2011, performing substandard loans totaled \$313 million and decreased \$9.86 million from the prior quarter-end, and decreased \$161 million from a year ago. Most of the decrease occurred in United's Atlanta and north Georgia markets and was primarily the result of our Bulk Loan Sale which was completed on April 18, 2011, however the overall trend in performing substandard loans has been declining. Residential construction and commercial construction loans showed the most significant decreases as they represented more than 60% of the pre-charge down carrying amount of the aggregate loans included in the loan sale.

Reviews of substandard performing and non-performing loans, past due loans and larger credits, are conducted on a regular basis with management each quarter and are designed to identify risk migration and potential charges to the allowance for loan losses. These reviews are performed by the responsible lending officers and the loan review department and also consider such factors as the financial strength of borrowers, the value of the applicable collateral, past loan loss experience, anticipated loan losses, changes in risk profile, prevailing economic conditions and other factors. In addition to United's internal loan review, United also uses external loan review to ensure the independence of the loan review process.

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The following table presents a summary of the changes in the allowance for loan losses for the three and six months ended June 30, 2011 and 2010.

	September 30, Problem (1) Asset Disposition Plan	September 30, Three Months Ended June 30, 2011 Other	September 30, June 30, 2011 Total	September 30, 2010 Total	September 30, Problem (1) Asset Disposition Plan	September 30, Six Months Ended June 30, 2011 Other	September 30, June 30, 2011 Total	September 30, 2010 Total
Balance beginning of period			\$ 133,121	\$ 173,934			\$ 174,695	\$ 155,602
Provision for loan losses			11,000	61,500			201,000	136,500
Charge-offs:								
Commercial (secured by real estate)	\$ (1,713)	\$ 5,146	3,433	9,791	\$ 44,052	\$ 8,088	52,140	12,727
Commercial construction	(1,332)	2,312	980	1,460	47,237	3,458	50,695	3,671
Commercial (commercial and industrial)	(116)	720	604	1,764	3,411	1,555	4,966	6,318
Residential construction	(2,842)	9,611	6,769	41,781	78,653	20,371	99,024	85,971
Residential mortgage	(1,255)	5,922	4,667	6,752	30,139	11,204	41,343	11,392
Consumer installment	(11)	894	883	1,417	297	1,682	1,979	2,546
Total loans charged-off	(7,269)	24,605	17,336	62,965	203,789	46,358	250,147	122,625
Recoveries:								
Commercial (secured by real estate)		174	174	34		274	274	1,006
Commercial construction		111	111			111	111	5
Commercial (commercial and industrial)		81	81	897		403	403	1,341
Residential construction		140	140	266		257	257	1,356
Residential mortgage		78	78	235		371	371	324
Consumer installment		269	269	210		674	674	602
Total recoveries		853	853	1,642		2,090	2,090	4,634
Net charge-offs	\$ (7,269)	\$ 23,752	16,483	61,323	\$ 203,789	\$ 44,268	248,057	117,991
Balance end of period			\$ 127,638	\$ 174,111			\$ 127,638	\$ 174,111

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Total loans: *					
At period-end	\$	4,163,447	\$	4,873,030	\$4,163,447 \$ 4,873,030
Average		4,196,375		4,934,224	4,364,401 5,012,415
Allowance as a percentage of period-end loans		3.07%		3.57%	3.07 3.57%
As a percentage of average loans:					
Net charge-offs		1.58		4.98	11.46 4.75
Provision for loan losses		1.05		5.00	9.29 5.49
Allowance as a percentage of non-performing loans					
As reported		180		78	180 78
Excluding impaired loans with no allocated reserve		333		234	333 234

* Excludes loans covered by loss sharing agreements with the FDIC

(1) During the first quarter of 2011, United's Problem Asset Disposition Plan resulted in charge-offs totaling \$186 million related to the Bulk Loan Sale that closed on April 18, 2011. The charge-offs were estimated based on indicative bids from prospective purchasers. Also in the first quarter related to United's Problem Asset Disposition Plan was an additional \$9.5 million in charge-offs related to other bulk loan sales that were completed in the first quarter of 2011 and \$15.6 million in charge-offs on foreclosed properties related to the Problem Asset Disposition Plan. The loans sold in the Bulk Loan Sale that closed April 18, 2011 were reported in the loans held for sale category at March 31, 2011. Actual losses upon closing of the Bulk Loan Sale were \$179 resulting in a \$7.269 million reduction in charge-offs in the second quarter. Total losses related to the Problem Asset Disposition Plan for the first six months of 2011 were \$203.8 million.

The provision for loan losses charged to earnings was based upon management's judgment of the amount necessary to maintain the allowance at a level appropriate to absorb losses inherent in the loan portfolio at the balance sheet date. The amount each quarter is dependent upon many factors, including growth and changes in the composition of the loan portfolio, net charge-offs, delinquencies, management's assessment of loan portfolio quality, the value of collateral, and other macro-economic factors and trends. The evaluation of these factors is performed quarterly by management through an analysis of the appropriateness of the allowance for loan losses. The decreases in the provision and the stabilization of the level of the allowance for loan losses compared to the previous periods reflects stabilizing trends in substandard loans, leading to an expectation that charge-off levels will continue to decline.

At June 30, 2011, the allowance for loan losses was \$128 million, or 3.07% of loans, compared with \$175 million, or 3.79% of loans, at December 31, 2010 and \$174 million, or 3.57% of loans, at June 30, 2010. The decrease in the allowance for loan losses is consistent with the decrease in classified loans resulting from the execution of the Problem Asset Disposition Plan, including the Bulk Loan Sale which reduced the amount of loss remaining in the loan portfolio.

Management believes that the allowance for loan losses at June 30, 2011 reflects the losses inherent in the loan portfolio. This assessment involves uncertainty and judgment; therefore, the adequacy of the allowance for loan losses cannot be determined with precision and may be subject to change in future periods. The amount of any changes could be significant if management's assessment of loan quality or collateral values change substantially with respect to one or more loan relationships or portfolios. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require adjustments to the provision for loan losses in future periods if, in their opinion, the results of their review warrant such additions. See the Critical Accounting Policies section in United's Annual Report on Form 10-K for additional information on the allowance for loan losses.

Nonperforming Assets

The table below summarizes nonperforming assets, excluding SCB's assets covered by the loss-sharing agreement with the FDIC. Those assets have been excluded from nonperforming assets, as the loss-sharing agreement with the FDIC and purchase price adjustments to reflect credit losses effectively eliminate the likelihood of recognizing any losses on the covered assets.

Table 10 Nonperforming Assets

(dollars in thousands)

	September 30, June 30, 2011	September 30, December 31, 2010	September 30, June 30, 2010
Nonperforming loans*	\$ 71,065	\$ 179,094	\$ 224,335
Foreclosed properties (OREO)	47,584	142,208	123,910
Total nonperforming assets	\$ 118,649	\$ 321,302	\$ 348,245
Nonperforming loans as a percentage of total loans	1.71%	3.89%	4.60%
Nonperforming assets as a percentage of total loans and OREO	2.82	6.77	6.97
Nonperforming assets as a percentage of total assets	1.66	4.42	4.55

* There were no loans 90 days or more past due that were still accruing at period end.

At June 30, 2011, nonperforming loans were \$71.1 million, compared to \$179 million at December 31, 2010 and \$224 million at June 30, 2010. The ratio of nonperforming loans to total loans decreased from December 31, 2010 and June 30, 2010 due to the Bulk Loan Sale in April 2011, which included performing and nonperforming substandard loans. Nonperforming assets, which include nonperforming loans and foreclosed real estate, totaled \$119 million at June 30, 2011, compared with \$321 million at December 31, 2010 and \$348 million at June 30, 2010. United sold \$28.9 million and \$73.5 million, respectively, of foreclosed properties during the second quarter and first six months of 2011. Both of these events helped lower the balance of foreclosed properties by 62% compared to June 30, 2010.

United's policy is to place loans on nonaccrual status when, in the opinion of management, the principal and interest on a loan is not likely to be repaid in accordance with the loan terms or when the loan becomes 90 days past due and is not well secured and in the process of collection. When a loan is classified on nonaccrual status, interest previously accrued but not collected is reversed against current interest revenue. Principal and interest payments received on a nonaccrual loan are applied to reduce outstanding principal.

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The following table summarizes non-performing assets by category and market. As with Tables 7, 8 and 10, assets covered by the loss-sharing agreement with the FDIC, related to the acquisition of SCB, are excluded from this table.

Table 11 Nonperforming Assets by Quarter⁽¹⁾

(in thousands)

	000000 June 30, 2011			000000 December 31, 2010			000000 June 30, 2010		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
BY CATEGORY									
Commercial (sec. by RE)	\$ 17,764	\$ 6,796	\$ 24,560	\$ 44,927	\$ 23,659	\$ 68,586	\$ 56,013	\$ 13,297	\$ 69,310
Commercial construction	2,782	6,764	9,546	21,374	17,808	39,182	17,872	11,339	29,211
Commercial & industrial	1,998		1,998	5,611		5,611	7,245		7,245
Total commercial	22,544	13,560	36,104	71,912	41,467	113,379	81,130	24,636	105,766
Residential construction	22,643	24,968	47,611	54,505	78,231	132,736	88,375	74,444	162,819
Residential mortgage	24,809	9,056	33,865	51,083	22,510	73,593	53,175	24,830	78,005
Consumer / installment	1,069		1,069	1,594		1,594	1,655		1,655
Total NPAs	\$ 71,065	\$ 47,584	\$ 118,649	\$ 179,094	\$ 142,208	\$ 321,302	\$ 224,335	\$ 123,910	\$ 348,245
Balance as a % of Unpaid Principal									
	64.5%	32.6%	46.3%	67.2%	64.4%	65.9%	69.4%	71.9%	70.3%
BY MARKET									
Atlanta MSA	\$ 14,700	\$ 11,239	\$ 25,939	\$ 48,289	\$ 41,154	\$ 89,443	\$ 74,031	\$ 30,605	\$ 104,636
Gainesville MSA	4,505	3,174	7,679	5,171	9,273	14,444	10,730	2,750	13,480
North Georgia	28,117	21,278	49,395	83,551	66,211	149,762	102,198	60,597	162,795
Western North Carolina	15,153	8,953	24,106	25,832	11,553	37,385	22,776	11,473	34,249
Coastal Georgia	5,357	2,564	7,921	11,145	11,901	23,046	8,341	16,548	24,889
East Tennessee	3,233	376	3,609	5,106	2,116	7,222	6,259	1,937	8,196
Total NPAs	\$ 71,065	\$ 47,584	\$ 118,649	\$ 179,094	\$ 142,208	\$ 321,302	\$ 224,335	\$ 123,910	\$ 348,245

(1) Excludes non-performing loans and foreclosed properties covered by the loss-sharing agreement with the FDIC, related to the acquisition of SCB.

In April 2011, United sold nonperforming loans in the Bulk Loan Sale with a pre-write down carrying amount of \$101 million and performing substandard loans with a pre-write down carrying amount of \$166 million. In anticipation of that sale, United recorded charge-offs of \$186 million and transferred these loans to the held for sale category at March 31, 2011. Nonperforming assets in the residential construction category were \$47.6 million at June 30, 2011, compared with \$163 million at June 30, 2010, a decrease of \$115 million, or 71%. Commercial nonperforming assets decreased from \$106 million at June 30, 2010 to \$36.1 million at June 30, 2011. Residential mortgage non-performing assets of \$33.9 million decreased \$44.1 million from June 30, 2010. While United experienced a reduction in nonperforming assets across all markets, the execution of the Problem Asset Disposition Plan, which included the Bulk Loan Sale and the write down of foreclosed properties, contributed to a decline in the North Georgia market and Atlanta MSA, where nonperforming asset levels had been particularly elevated.

At June 30, 2011, December 31, 2010, and June 30, 2010 United had \$46.2 million, \$101 million and \$77.9 million respectively, in loans with terms that have been modified in a troubled debt restructuring (TDR). Included therein were \$4.75 million, \$17.3 million and \$11.0 million of TDRs that were not performing in accordance with their modified terms and were included in nonperforming loans. The remaining TDRs with an aggregate balance of \$41.5 million, \$83.7 million and \$66.9 million, respectively, were performing according to their modified terms and are therefore not considered to be nonperforming assets.

At June 30, 2011, December 31, 2010, and June 30, 2010, there were \$35.7 million, \$123 million and \$163 million, respectively, of loans classified as impaired under the Accounting Standards Codification. Included in impaired loans at June 30, 2011, December 31, 2010 and

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June 30, 2010, was \$32.8 million, \$115 million and \$150 million, respectively that did not require specific reserves or had previously been charged down to net realizable value. The balance of impaired loans at June 30, 2011, December 31, 2010 and June 30, 2010, of \$2.86 million, \$7.64 million and \$12.5 million, respectively, had specific reserves that totaled \$1.17 million, \$1.05 million and \$1.14 million, respectively. The average recorded investment in impaired loans for the second quarters of 2011 and 2010 was \$42.1 million and \$171 million, respectively. There was no interest revenue recognized on loans while they were impaired for the first six months of 2011 or 2010. United's policy is to discontinue the recognition of interest revenue for loans classified as impaired under the Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 310-10-35, *Receivables*, when a loan meets the criteria for nonaccrual status.

The table below summarizes activity in non-performing assets by quarter. Assets covered by loss sharing agreements with the FDIC, related to the acquisition of SCB, are not included in this table.

Table 12 Activity in Nonperforming Assets by Quarter

(in thousands)

	September 30, Second Quarter 2011 ⁽¹⁾			September 30, Second Quarter 2010 ⁽¹⁾		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
Beginning Balance	\$ 83,769	\$ 54,378	\$ 138,147	\$ 280,802	\$ 136,275	\$ 417,077
Loans placed on non-accrual	35,911		35,911	155,007		155,007
Payments received	(7,702)		(7,702)	(12,189)		(12,189)
Loan charge-offs	(18,888)		(18,888)	(62,693)		(62,693)
Foreclosures	(22,025)	22,025		(66,994)	66,994	
Capitalized costs		20	20		305	305
Note / property sales		(28,939)	(28,939)	(69,598)	(68,472)	(138,070)
Loans transferred to held for sale						
Write downs		(3,118)	(3,118)		(6,094)	(6,094)
Net gains (losses) on sales		3,218	3,218		(5,098)	(5,098)
Ending Balance	\$ 71,065	\$ 47,584	\$ 118,649	\$ 224,335	\$ 123,910	\$ 348,245

	September 30, First Six Months 2011 ⁽¹⁾			September 30, First Six Months 2010 ⁽¹⁾		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
Beginning Balance	\$ 179,094	\$ 142,208	\$ 321,302	\$ 264,092	\$ 120,770	\$ 384,862
Loans placed on non-accrual	90,641		90,641	294,037		294,037
Payments received	(11,252)		(11,252)	(17,922)		(17,922)
Loan charge-offs	(62,857)		(62,857)	(121,590)		(121,590)
Foreclosures	(39,077)	39,077		(116,227)	116,227	
Capitalized costs		290	290		625	625
Note / property sales	(11,400)	(73,486)	(84,886)	(78,055)	(94,423)	(172,478)
Loans transferred to held for sale	(74,084)		(74,084)			
Write downs		(51,703)	(51,703)		(10,673)	(10,673)
Net losses on sales		(8,802)	(8,802)		(8,616)	(8,616)
Ending Balance	\$ 71,065	\$ 47,584	\$ 118,649	\$ 224,335	\$ 123,910	\$ 348,245

⁽¹⁾ Excludes non-performing loans and foreclosed properties covered by the loss-sharing agreement with the FDIC, related to the acquisition of SCB.

⁽²⁾ The NPA activity shown for the first quarter of 2011 is presented with all activity related to loans transferred to the held for sale classification on one line as if those loans were transferred to held for sale at the beginning of the period. During the first quarter of 2011, \$2.7 million in loans transferred to held for sale were placed on nonaccrual, \$1.1 million in payments were received on nonaccrual loans

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transferred to held for sale and \$66.6 million in charge-offs were recorded on nonaccrual loans transferred to held for sale to mark them down to the expected proceeds from the sale.

Foreclosed property is initially recorded at fair value, less estimated costs to sell. If the fair value, less estimated costs to sell at the time of foreclosure, is less than the loan balance, the deficiency is charged against the allowance for loan losses. If the fair value, less estimated costs to sell, of the foreclosed property decreases during the holding period, a valuation allowance is established with a charge to foreclosed property costs. When the foreclosed property is sold, a gain or loss is recognized on the sale for the difference between the sales proceeds and the carrying amount of the property. Financed sales of foreclosed property are accounted for in accordance with ASC 360-20, *Real Estate Sales*. For the second quarter and first six months of 2011, United transferred \$22.0 million and \$39.1 million, respectively, of loans into foreclosed property. During the same periods, proceeds from sales of OREO were \$28.9 million and \$73.5 million, respectively, which includes \$8.54 million and \$4.63 million of sales that were financed by United, respectively. During the first quarter of 2011, United recorded \$48.6 million in write-downs on foreclosed property in order to expedite sales in the second and third quarter.

Investment Securities

The composition of the investment securities portfolio reflects United's investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of revenue. The investment securities portfolio also provides a balance to interest rate risk and credit risk in other categories of the balance sheet while providing a vehicle for the investment of available funds, furnishing liquidity, and supplying securities to pledge as required collateral for certain deposits. Total investment securities at June 30, 2011 increased \$700 million from a year ago. The increase in the securities portfolio was a result of a buildup of liquidity resulting partially from strong core deposit growth with little loan demand to invest the proceeds. In addition, United had previously sought to maintain above normal amounts of liquidity due to the uncertain economy. United invested the proceeds from deposits in short-term commercial paper and floating rate mortgage-backed securities. United chose floating rate securities because they have less market risk in the event rates begin to rise.

During the second quarter of 2010, United transferred securities available for sale with a fair value of \$315 million to held to maturity. The transferred securities were those that United has the ability and positive intent to hold until maturity. Generally, the transferred securities had longer durations and were more susceptible to market price volatility due to changes in interest rates. At June 30, 2011, United had securities held to maturity with a carrying value of \$372 million and securities available for sale totaling \$1.82 billion. At June 30, 2011, December 31, 2010, and June 30, 2010, the securities portfolio represented approximately 31%, 20%, and 19% of total assets, respectively.

The investment securities portfolio primarily consists of U.S. Government sponsored agency mortgage-backed securities, non-agency mortgage-backed securities, U.S. Government agency securities, corporate bonds, and municipal securities. Mortgage-backed securities rely on the underlying pools of mortgage loans to provide a cash flow of principal and interest. The actual maturities of these securities will differ from contractual maturities because loans underlying the securities can prepay. Decreases in interest rates will generally cause an acceleration of prepayment levels. In a declining interest rate environment, United may not be able to reinvest the proceeds from these prepayments in assets that have comparable yields. In a rising rate environment, the opposite occurs. Prepayments tend to slow and the weighted average life extends. This is referred to as extension risk which can lead to lower levels of liquidity due to the delay of cash receipts and can result in the holding of a below market yielding asset for a longer period of time.

Goodwill and Other Intangible Assets

Goodwill represents the premium paid for acquired companies above the fair value of the assets acquired and liabilities assumed, including separately identifiable intangible assets. As a result of the significant drop in United's stock price during the third quarter of 2010, United conducted an interim goodwill impairment test to determine if the stock price decline might indicate goodwill was impaired. United's third quarter interim 2010 impairment test indicated that goodwill was in fact impaired and United recorded a charge to earnings for the entire remaining balance of \$211 million. In performing the interim impairment test, United engaged the services of a national third party valuation expert who employed commonly used valuation techniques including an earnings approach that considered discounted future expected cash earnings and three market approaches.

Other intangible assets, primarily core deposit intangibles representing the value of United's acquired deposit base, are amortizing intangible assets that are required to be tested for impairment only when events or circumstances indicate that impairment may exist. There were no events or circumstances that led management to believe that any impairment exists in United's other intangible assets.

Deposits

United initiated several programs in early 2009 to improve core earnings by growing customer transaction deposit accounts and lowering overall pricing on deposit accounts to improve its net interest margin and increase net interest revenue. The programs were very successful in increasing core transaction deposit accounts and reducing more costly time deposit balances as United's funding needs decreased due to lower loan demand. United has continued to pursue customer transaction deposits by stressing its high customer satisfaction scores.

Total deposits as of June 30, 2011 were \$6.18 billion, a decrease of \$146 million, or 2%, from June 30, 2010. Total non-interest-bearing demand deposit accounts of \$899 million increased \$119 million, or 15%, due to the success of core deposit programs. Also impacted by the programs were NOW, money market and savings accounts of \$2.49 billion which increased \$225 million, or 10%, from June 30, 2010.

Total time deposits, excluding brokered deposits, as of June 30, 2011 were \$2.49 billion, down \$180 million from June 30, 2010. Time deposits less than \$100,000 totaled \$1.51 billion, a decrease of \$66.8 million, or 4%, from a year ago. Time deposits of \$100,000 and greater totaled \$981 million as of June 30, 2011, a decrease of \$113 million, or 10%, from June 30, 2010. United continued to offer low rates on certificates of deposit, allowing balances to decline as United's funding needs declined due to weak loan demand.

Wholesale Funding

The Bank is a shareholder in the Federal Home Loan Bank (FHLB) of Atlanta. Through this affiliation, FHLB secured advances totaled \$40.6 million and \$104 million as of June 30, 2011 and 2010, respectively. United anticipates continued use of this short- and long-term source of funds. FHLB advances outstanding at June 30, 2011 had fixed interest rates ranging up to 4.49%. During the second quarter of 2011 and the third quarter of 2010, United prepaid approximately \$14.5 million and \$50.0 million, respectively, of fixed-rate advances and incurred prepayment charges of \$791,000 and \$2.23 million, respectively. Additional information regarding FHLB advances is provided in Note 11 to the consolidated financial statements included in United s 2010 Form 10-K.

At June 30, 2011 and 2010, United had \$104 million in repurchase agreements and other short-term borrowings outstanding. United takes advantage of these additional sources of liquidity when rates are favorable compared to other forms of short-term borrowings, such as FHLB advances and brokered deposits.

Interest Rate Sensitivity Management

The absolute level and volatility of interest rates can have a significant effect on United s profitability. The objective of interest rate risk management is to identify and manage the sensitivity of net interest revenue to changing interest rates, in order to achieve United s overall financial goals. Based on economic conditions, asset quality and various other considerations, management establishes tolerance ranges for interest rate sensitivity and manages within these ranges.

United s net interest revenue, and the fair value of its financial instruments, are influenced by changes in the level of interest rates. United manages its exposure to fluctuations in interest rates through policies established by the Asset/Liability Management Committee (ALCO). ALCO meets periodically and has responsibility for approving asset/liability management policies, formulating and implementing strategies to improve balance sheet positioning and/or earnings, and reviewing United s interest rate sensitivity.

One of the tools management uses to estimate the sensitivity of net interest revenue to changes in interest rates is an asset/liability simulation model. Resulting estimates are based upon a number of assumptions for each scenario, including the level of balance sheet growth, loan and deposit repricing characteristics and the rate of prepayments. The ALCO regularly reviews the assumptions for accuracy based on historical data and future expectations, however, actual net interest revenue may differ from model results. The primary objective of the simulation model is to measure the potential change in net interest revenue over time using multiple interest rate scenarios. The base scenario assumes rates remain flat and is the scenario to which all others are compared in order to measure the change in net interest revenue. Policy limits are based on gradually rising and falling rate scenarios, which are compared to this base scenario. Another commonly analyzed scenario is a most-likely scenario that projects the expected change in rates based on the slope of the yield curve. Other scenarios analyzed may include rate shocks, narrowing or widening spreads, and yield curve steepening or flattening. While policy scenarios focus on a twelve month time frame, longer time horizons are also modeled.

United s policy is based on the 12-month impact on net interest revenue of interest rate ramps that increase 200 basis points and decrease 200 basis points from the base scenario. In the ramp scenarios, rates change 25 basis points per month over the initial eight months. The policy limits the change in net interest revenue over the next 12 months to a 10% decrease in either scenario. The policy ramp and base scenarios assume a static balance sheet. Historically low rates on June 30, 2011 and 2010 made use of the down 200 basis points scenario problematic. At June 30, 2011 United s simulation model indicated that a 200 basis point increase in rates would cause an approximate .01% increase in net interest revenue over the next twelve months, and a 25 basis point decrease would cause an approximate .75% increase in net interest revenue over the next twelve months. At June 30, 2010, United s simulation model indicated that a 200 basis point increase in rates would cause an approximate .4% increase in net interest revenue and a 25 basis point decrease in rates over the next twelve months would cause an approximate .2% decrease in net interest revenue.

Interest rate sensitivity is a function of the repricing characteristics of the portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest-earning assets and interest-bearing liabilities are subject to change in interest rates either at replacement, repricing or maturity during the life of the instruments. Interest rate sensitivity management focuses on the maturity structure of assets and liabilities and their repricing characteristics during periods of changes in market interest rates. Effective interest rate sensitivity management seeks to ensure that both assets and liabilities respond to changes in interest rates within an acceptable timeframe, thereby minimizing the effect of interest rate changes on net interest revenue.

United may have some discretion in the extent and timing of deposit repricing depending upon the competitive pressures in the markets in which it operates. Changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. The interest rate spread between an asset and its supporting liability can vary significantly even when the timing of repricing for both the asset and the liability remains the same, due to the two instruments repricing according to different indices.

Varying interest rate environments can create unexpected changes in prepayment levels of assets and liabilities that are not reflected in an interest rate sensitivity gap analysis. These prepayments may have significant effect on the net interest margin. Because of these limitations, an interest sensitivity gap analysis alone generally does not provide an accurate assessment of exposure to changes in interest rates.

In order to manage its interest rate sensitivity, United periodically enters into off-balance sheet contracts that are considered derivative financial instruments. Derivative financial instruments can be a cost-effective and capital-effective means of modifying the repricing characteristics of on-balance sheet assets and liabilities. These contracts generally consist of interest rate swaps under which United pays a variable rate and receives a fixed rate and interest rate floor contracts where United pays a premium up front to a counterparty for the right to be compensated if a specified rate index falls below a pre-determined floor rate.

United's derivative financial instruments are classified as either cash flow or fair value hedges. The change in fair value of cash flow hedges is recognized in other comprehensive income. Fair value hedges recognize currently in earnings both the effect of the change in the fair value of the derivative financial instrument and the offsetting effect of the change in fair value of the hedged asset or liability associated with the particular risk of that asset or liability being hedged. At June 30, 2011, United did not have any active derivative contracts outstanding.

From time to time, United will terminate swap or floor positions when conditions change and the position is no longer necessary to manage United's overall sensitivity to changes in interest rates. In those situations where the terminated swap or floor was in an effective hedging relationship at the time of termination and the hedging relationship is expected to remain effective throughout the original term of the swap or floor, the resulting gain or loss is amortized over the remaining life of the original contract. For swap contracts, the gain or loss is amortized over the remaining original contract term using the straight line method of amortization. For floor contracts, the gain or loss is amortized over the remaining original contract term based on the original floorlet schedule. At June 30, 2011, United had \$10.1 million in gains from terminated derivative positions included in other comprehensive income that will be amortized into earnings over their remaining original contract terms. Approximately \$7.24 million is expected to be reclassified into interest revenue over the next twelve months.

United's policy requires all derivative financial instruments be used only for asset/liability management through the hedging of specific transactions or positions, and not for trading or speculative purposes. Management believes that the risk associated with using derivative financial instruments to mitigate interest rate risk sensitivity is minimal and should not have any material unintended effect on our financial condition or results of operations. In order to mitigate potential credit risk, from time to time United may require the counterparties to derivative contracts to pledge securities as collateral to cover the net exposure.

Liquidity Management

The objective of liquidity management is to ensure that sufficient funding is available, at reasonable cost, to meet the ongoing operational cash needs and to take advantage of revenue producing opportunities as they arise. While the desired level of liquidity will vary depending upon a variety of factors, it is the primary goal of United to maintain a sufficient level of liquidity in all expected economic environments. Liquidity is defined as the ability to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining United's ability to meet the daily cash flow requirements of the Bank's customers, both depositors and borrowers. In addition, because United is a separate entity and apart from the Bank, it must provide for its own liquidity. United is responsible for the payment of dividends declared for its common and preferred shareholders, and interest and principal on any outstanding debt or trust preferred securities.

Two key objectives of asset/liability management are to provide for adequate liquidity in order to meet the needs of customers and to maintain an optimal balance between interest-sensitive assets and interest-sensitive liabilities to optimize net interest revenue. Daily monitoring of the sources and uses of funds is necessary to maintain a position that meets both requirements.

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments and the maturities and sales of securities, as well as the ability to use these as collateral for borrowings on a secured basis. We also maintain excess funds in short-term interest-bearing assets that provide additional liquidity. Mortgage loans held for sale totaled \$19.4 million at June 30, 2011, and typically turn over every 45 days as the closed loans are sold to investors in the secondary market. In addition, at June 30, 2011 United held \$942 million in excess liquidity including \$175 million in short-term commercial paper, \$144 million in balances in excess of reserve requirements at the Federal Reserve Bank and \$623 million in floating rate mortgage-backed securities.

The liability section of the balance sheet provides liquidity through interest-bearing and noninterest-bearing deposit accounts. Federal funds purchased, Federal Reserve short-term borrowings, FHLB advances and securities sold under agreements to repurchase are additional sources of liquidity and represent United's incremental borrowing capacity. These sources of liquidity are generally short-term in nature and are used as necessary to fund asset growth and meet other short-term liquidity needs.

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Substantially all of the parent company's liquidity is obtained from subsidiary service fees and dividends from the Bank, which is limited by applicable law.

At June 30, 2011, United had sufficient qualifying collateral to increase FHLB advances by \$1.39 billion and Federal Reserve discount window capacity of \$142 million. United's internal policy limits brokered deposits to 25% of total assets. At June 30, 2011, United had the capacity to increase brokered deposits by \$1.49 billion, subject to certain regulatory approvals, and still remain within this limit. In addition to these wholesale sources, United has the ability to attract retail deposits at any time by competing more aggressively on pricing.

As disclosed in United's consolidated statement of cash flows, net cash provided by operating activities was \$105 million for the six months ended June 30, 2011. The net loss of \$225 million for the six month period included non-cash expenses for the provision for loan losses of \$201 million and losses and write downs on foreclosed property of \$60.5 million. In addition, other assets decreased \$41.2 million. Net cash used in investing activities of \$436 million consisted primarily of purchases of securities of \$1.02 billion and purchases of premises and equipment of \$5.28 million, that were offset by proceeds from sales of securities of \$107 million, maturities and calls of investment securities of \$255 million, net proceeds from sales of other real estate and notes of \$60.3 million, proceeds from note sales of \$99.3 million, and a net decrease in loans of \$64.8 million. Net cash provided by financing activities of \$61.8 million consisted primarily of the proceeds from \$362 million in newly issued common and preferred stock offset by a net decrease in deposits of \$286 million. United also paid \$15.3 million to settle FHLB advances totaling \$14.5 million. In the opinion of management, United had a significant excess liquidity position at June 30, 2011, which was sufficient to meet its expected cash flow requirements.

Capital Resources and Dividends

Shareholders' equity at June 30, 2011 was \$603 million, an increase of \$134 million from December 31, 2010. Accumulated other comprehensive income, which includes unrealized gains and losses on securities available for sale and the unrealized gains and losses on derivatives qualifying as cash flow hedges, is excluded in the calculation of regulatory capital adequacy ratios. Excluding the change in the accumulated other comprehensive income, shareholders' equity increased \$136 million from December 31, 2010.

During the first quarter of 2011, United closed the Private Placement. Pursuant to the Private Placement, the Investors purchased and United issued \$32.9 million of the Company's existing common stock, consisting of 3,467,699 shares, for \$9.50 per share and issued \$347 million in preferred stock consisting of \$196 million of Series F Preferred Stock, and \$151 million of Series G Preferred Stock. Under the terms of the Private Placement Agreement and following receipt of required shareholder approvals, which were received on June 16, 2011 at United's annual shareholders' meeting, the Series F Preferred Stock converted into 20,618,090 shares of voting common stock and the Series G Preferred Stock converted into 15,914,209 shares of non-voting common stock. Following such conversion, the Investors owned an aggregate of 24,085,801 shares of common stock and 15,914,199 shares of non-voting common stock. The Private Placement resulted in an increase to shareholders' equity of \$362 million, net of transaction costs.

On February 22, 2011, the Company entered into the Share Exchange Agreement with the Elm Ridge Parties. Under the Share Exchange Agreement, the Elm Ridge Parties agreed to transfer to the Company 1,551,126 shares of the Company's common stock in exchange for 16,613 Series D Preferred Shares and warrants to purchase 1,551,126 common shares.

United accrued \$2.60 million and \$5.21 million in dividends, including accretion of discounts, on Series A and Series B preferred stock in the second quarter and first six months of 2011 as well as \$414,000 and \$587,000 in dividends on Series D preferred stock for the same periods.

United is currently subject to a board resolution required by the Federal Reserve that provides that United may not incur additional indebtedness, pay cash dividends, make payments on our trust preferred securities or repurchase outstanding stock without prior approval of the Federal Reserve. We were not given permission to pay interest on our trust preferred securities and dividends on our preferred stock during the first quarter of 2011. Effective April 15, 2011, United received approval from the Federal Reserve for payments of currently payable and previously deferred dividends and interest on its preferred stock and trust preferred securities.

The Bank is currently subject to an informal memorandum of understanding (MOU) which requires, among other things, that the Bank maintain its Tier 1 leverage ratio at not less than 8% and its total risk-based capital ratio at not less than 10% during the life of the MOU. Additionally, the MOU requires that, prior to declaring or paying any cash dividends to United, the Bank must obtain the written consent of its regulators. United is in compliance with all requirements of the MOU.

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United's common stock trades on the Nasdaq Global Select Market under the symbol UCBI. Below is a quarterly schedule of high, low and closing stock prices and average daily volume for 2011 and 2010.

Table 13 Stock Price Information *

	September 30, 2011	September 30, 2011	September 30, 2011	September 30, 2011	September 30, 2010	September 30, 2010	September 30, 2010	September 30, 2010	September 30, 2010
	High	Low	Close	Avg Daily Volume	High	Low	Close	Avg Daily Volume	
First quarter	\$ 11.85	\$ 5.95	\$ 11.65	227,321	\$ 25.00	\$ 16.05	\$ 22.05	176,585	
Second quarter	14.65	9.80	10.56	139,741	31.00	19.30	19.75	169,997	
Third quarter					20.50	10.20	11.20	162,032	
Fourth quarter					13.00	5.50	9.75	216,916	

* The stock price information shown above has been adjusted to reflect United's 1 for 5 reverse stock split as though it had occurred at the beginning of the earliest reported period.

The Board of Governors of the Federal Reserve System has issued guidelines for the implementation of risk-based capital requirements by U.S. banks and bank holding companies. These risk-based capital guidelines take into consideration risk factors, as defined by regulators, associated with various categories of assets, both on and off-balance sheet. Under the guidelines, capital strength is measured in two tiers that are used in conjunction with risk-weighted assets to determine the risk-based capital ratios. The guidelines require an 8% total risk-based capital ratio, of which 4% must be Tier I capital. However, to be considered well-capitalized under the guidelines, a 10% total risk-based capital ratio is required, of which 6% must be Tier I capital.

Under the risk-based capital guidelines, assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor, or, if relevant, the guarantor or the nature of the collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with the category. The resulting weighted values from each of the risk categories are added together, and generally this sum is the company's total risk weighted assets. Risk-weighted assets for purposes of United's capital ratios are calculated under these guidelines.

A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as Tier I capital divided by average assets adjusted for goodwill and deposit-based intangibles. Although a minimum leverage ratio of 3% is required, the Federal Reserve Board requires a bank holding company to maintain a leverage ratio greater than 3% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve Board. The Federal Reserve Board uses the leverage and risk-based capital ratios to assess capital adequacy of banks and bank holding companies.

The following table shows United's capital ratios, as calculated under regulatory guidelines, at June 30, 2011, December 31, 2010 and June 30, 2010.

Table 14 Capital Ratios

(dollars in thousands)

September 30, Regulatory Guidelines	September 30, Well Capitalized	September 30, (As restated) June 30, 2011	September 30, (Consolidated) (As restated) December 31, 2010	September 30, June 30, 2010	September 30, (As restated) June 30, 2011	September 30, (As restated) December 31, 2010	September 30, June 30, 2010
Minimum							

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Risk-based ratios:													
Tier I capital	4.0%	6.0%	13.62%	9.81%	11.07%	13.33%	10.85%	10.90%					
Total capital	8.0	10.0	16.16	12.25	13.85	15.12	12.61	12.67					
Leverage ratio	3.0	5.0	8.52	6.76	7.72	8.35	7.45	7.71					
Tier I capital		\$	626,485	\$	489,279	\$	568,047	\$	613,016	\$	540,183	\$	638,943
Total capital			742,930		611,098		710,765		695,358		627,829		743,137

United's Tier I capital excludes other comprehensive income, and consists of shareholders' equity and qualifying capital securities, less goodwill and deposit-based intangibles. Tier II capital components include supplemental capital items such as a qualifying allowance for loan losses and qualifying subordinated debt. Tier I capital plus Tier II capital components is referred to as Total Risk-Based capital.

Effect of Inflation and Changing Prices

A bank's asset and liability structure is substantially different from that of an industrial firm in that primarily all assets and liabilities of a bank are monetary in nature with relatively little investment in fixed assets or inventories. Inflation has an important effect on the growth of total assets and the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity to assets ratio.

United's management believes the effect of inflation on financial results depends on United's ability to react to changes in interest rates, and by such reaction, reduce the inflationary effect on performance. United has an asset/liability management program to manage interest rate sensitivity. In addition, periodic reviews of banking services and products are conducted to adjust pricing in view of current and expected costs.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There have been no material changes in United's quantitative and qualitative disclosures about market risk as of June 30, 2011 from that presented in the Annual Report on Form 10-K for the year ended December 31, 2010. The interest rate sensitivity position at June 30, 2011 is included in management's discussion and analysis on page 53 of this report.

Item 4. Controls and Procedures

United's management, including the Chief Executive Officer and Chief Financial Officer, supervised and participated in an evaluation of the Company's disclosure controls and procedures as of June 30, 2011. Based on, and as of the date of that evaluation, United's Chief Executive Officer and Chief Financial Officer initially concluded that the disclosure controls and procedures were effective in accumulating and communicating information to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures of that information under the Securities and Exchange Commission's rules and forms and that the disclosure controls and procedures are designed to ensure that the information required to be disclosed in reports that are filed or submitted by United under the Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Because of management's subsequent decision to establish a full deferred tax asset valuation allowance as of December 31, 2010, and the resulting restatement of United's consolidated financial statements described in more detail elsewhere in this Amendment, management has re-evaluated the effectiveness of United's disclosure controls and procedures as of June 30, 2011. As a result of such re-evaluation, management, including the Chief Executive Officer and Chief Financial Officer, has determined that the restatement indicates there was a material weakness in United's internal control over financial reporting as of June 30, 2011 and that United's disclosure controls and procedures were not effective as of such date.

Specifically, management has determined that its application of ASC 740, *Accounting for Income Taxes*, was incorrect and that United did not have adequate controls in place to enable management to sufficiently analyze, evaluate and validate the positive and negative evidence supporting the valuation of our deferred tax assets. This deficiency, which resulted in the misstatement in United's consolidated financial statements as of December 31, 2010, was a material weakness in United's internal control over financial reporting as of December 31, 2010 and as of June 30, 2011. As a result, to address the above deficiency, management is currently evaluating specific additional procedures designed to increase the level of analysis, evaluation and validation of United's valuation of deferred tax assets. No changes were made to United's internal control over financial reporting during the second quarter of 2011 that materially affected, or are reasonably likely to materially affect, United's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

In the ordinary course of operations, United and the Bank are defendants in various legal proceedings. In the opinion of management, there is no pending or threatened proceeding in which an adverse decision could result in a material adverse change in the consolidated financial condition or results of operations of United.

Item 1A. Risk Factors

We have incurred significant operating losses and our ability to maintain profitability is uncertain.

We incurred a net operating loss from continuing operations of \$237 million for the first quarter of 2011. This compared to a net operating loss from continuing operations of \$34.5 million for the first quarter of 2010. Diluted operating loss from continuing operations per common share was \$13.00 for the first quarter of 2011, compared to a diluted operating loss from continuing operations per common share of \$1.96 for the first quarter of 2010. The first quarter of 2011 operating loss largely reflects the Board of Director's decision to adopt the Problem Asset Disposition Plan described above under Summary Recent Developments to quickly dispose of problem assets following our successful Private Placement also described in Summary Recent Developments. We incurred a net operating loss from continuing operations of \$305 million, or \$16.64 per share, for the year ended December 31, 2010; \$139 million, or \$12.37 per share, for the year ended December 31, 2009; and \$63.9 million, or \$6.81 per share, for the year ended December 31, 2008, in each case due primarily to credit losses and associated costs, including significant provisions for loan losses. Although we had net income of \$12.0 million and diluted earnings per share of \$.16 for the second quarter of 2011, we may continue to have a higher than normal level of nonperforming assets and substantial charge-offs in 2011, which would continue to adversely impact our overall financial condition and results of operations and could impair ability to maintain profitability.

Our ability to use our deferred tax asset balances may be materially impaired.

As of June 30, 2011, our deferred tax asset balance was approximately \$261 million, which includes approximately \$212 million of federal and state net operating losses, which we have a full valuation allowance against.

Our ability to use these tax benefits would be substantially limited if we were to experience an ownership change as defined under Section 382 of the Internal Revenue Code of 1986, as amended, and related Internal Revenue Service pronouncements. As a result of the Private Placement we did not incur an ownership change, but are close to the threshold. In general, an ownership change would occur if our 5-percent shareholders, as defined under Section 382, collectively increased their ownership in United by more than 50% over a rolling three-year period. A corporation that experiences an ownership change will generally be subject to an annual limitation on the use of its pre-ownership change deferred tax assets equal to the equity value of the corporation immediately before the ownership change, multiplied by the long-term tax-exempt rate, which was 4.55% for ownership changes occurring in March 2011, the month in which United completed the Private Placement.

While we have taken measures to reduce the likelihood that future transactions in our stock will result in an ownership change, there can be no assurance that an ownership change will not occur in the future or that there will not be a change in applicable law that may result in an ownership change. More specifically, while our Tax Benefits Preservation Plan provides an economic disincentive for any one person or group to become a Threshold Holder (as defined in the plan) and for any existing Threshold Holder to acquire more than a specified amount of additional shares, there can be no assurance that the Tax Benefits Preservation Plan will deter a shareholder from increasing its ownership interests beyond the limits set by the plan. Such an increase could adversely affect our ownership change calculations.

Other than the risk factors mentioned above, there have been no material changes from the risk associated with our business and industry, as well as the risks related to legislative and regulatory events, contained in the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds None**Item 3. Defaults upon Senior Securities None****Item 4. (Removed and Reserved)****Item 5. Other Information None****Item 6. Exhibits**

Exhibit No.	Description
3.1	Restated Articles of Incorporation of United Community Banks, Inc. (incorporated herein by reference to Exhibit 3.1 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q/A for the period ended June 30, 2011, filed with the SEC on August 9, 2011.)
3.2	Amended and Restated Bylaws of United Community Banks, Inc., as amended (incorporated herein by reference to Exhibit 3.2 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2011, filed with the SEC on May 4, 2011).
4.1	See Exhibits 3.1 and 3.2 for provisions of the Restated Articles of Incorporation of United Community Banks, Inc., as amended, and the Amended and Restated Bylaws, as amended, of United Community Banks, Inc., which define the rights of security holders.
4.2	Second Amendment to Tax Benefits Preservation Plan, dated as of June 17, 2011 (incorporated herein by reference to Exhibit 1.1 to United Community Banks, Inc.'s Current Report on Form 8-K, filed with the SEC on June 21, 2011).

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Exhibit No.	Description
10.1	Asset Purchase and Sale Agreement, dated as of April 18, 2011, among United Community Bank, CF Southeast, LLC and CF Southeast Trust 2011-1 (incorporated herein by reference to Exhibit 10.3 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2011, filed with the SEC on May 4, 2011).
31.1	Certification by Jimmy C. Tallent, President and Chief Executive Officer of United Community Banks, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Rex S. Schuette, Executive Vice President and Chief Financial Officer of United Community Banks, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 2 to the Report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED COMMUNITY BANKS, INC.

/s/ Jimmy C. Tallent

Jimmy C. Tallent

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Rex S. Schuette

Rex S. Schuette

Executive Vice President and

Chief Financial Officer

(Principal Financial Officer)

/s/ Alan H. Kumler

Alan H. Kumler

Senior Vice President and Controller

(Principal Accounting Officer)

Date: February 9, 2012